# Shree Rama Newsprint Limited (Revised)

**April 06, 2023**

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 93.26<br>(Reduced from 102.16) | CARE BB; Stable | Reaffirmed |
| Long Term / Short Term Bank Facilities | 2.00 | CARE BB; Stable / CARE A4 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

**Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Shree Rama Newsprint Limited (SRNL) continue to be constrained due to decline in scale of operations with continued losses at PAT level post closure of loss making paper division, small scale of operations of its packaged drinking water bottle plant, high debt levels and weak debt coverage indicators.

The ratings of SRNL, however, continue to derive strength from its experienced and resourceful parent Riddhi Siddhi Gluco Biols Limited (RSGBL) which has extended need based financial support and strategic location of plant with availability of large land parcel and captive power plant.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive Factors**

- Improvement in its PBIDLT margin in the range of 8%-10%
- PBILDT interest coverage ratio more than 1.25 times on a sustained basis

**Negative Factors**

- Change in RSGBL's management's stance to support the operations of SRNL and/or deterioration in the credit profile of RSGBL
- Further deterioration in the debt coverage indicators of the company

**Analytical approach**: CARE has considered the standalone financials of SRNL along with expected need-based support from its parent, RSGBL.

**Outlook:** Stable

The "Stable" outlook reflects that company will continue to benefit from its resourceful parent with infusion of need based financial support and established operations of its bottling plant that would enable the company to sustain its performance in near term.

**Key Weaknesses**

**Discontinuation of paper division resulting in decline in scale of operation and losses at PAT level**

SRNL's paper plant is located near Hazira, Surat in Gujarat. SRNL's installed capacity remained optimally utilized till FY19 however it was started declining in FY20 and with adverse impact of Covid-19 pandemic along with temporary closer of paper division during Q2FY21 (from August 08, 2020 to October 02, 2020) on the back of closer order issued by Gujarat Pollution Control Board (GPCB), company has incurred losses in paper division. Despite capex and other efforts, company continue to incur losses under its paper operations due to high input prices mainly waste paper prices and coal rates without corresponding increase in prices of newsprint and WPP, the company had decided to close the paper operations and announced lay-off of its employees under paper division since December 18, 2021. In FY22, SRNL has reported TOI of Rs.329.72 crore with loss of Rs.69.72 crore at PAT level and cash loss of Rs.41.21 crore. During 9MFY23, it is operating only its bottling plant facility and Paper division is shut down

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

completely. During 9MFY23, it has reported sharp decline in TOI Rs. 87.40 crore with loss of Rs.17.62 crore at PAT level as compared to TOI of Rs.300 crore with net loss of Rs.62.15 crore in 9MFY22 due to shut down of its loss making paper division. The reduction in losses is due to closure of paper division as well as non-charging of interest on unsecured loans. Sales related to paper division in 9MFY23 of Rs.54 crore was related to inventory clearance. The losses of SRNL were funded by unsecured loans from RSGBL and liquidation of paper division inventory.

**Small scale of operations of its packaged drinking water bottle plant**

SRNL had commissioned its integrated packaged drinking water bottle plant in July 2019 having installed capacity of 32,000 BPH (bottle per hour) funded through unsecured loans from RSGBL. SRNL sells water bottle to established and reputed customers of "Clear" brand. Packaged water bottle of 200 ml forms around 90% of total volume and remaining through 500 ml and 1 litre bottles. Further, the plastic material used by SRNL in manufacturing the plastic bottles are of bio-degradable grade and hence serves as a premium segment class quality. The revenue contribution from the packaged water bottle remained low marked by revenue of Rs. 31.04 crore during FY22 and PBIT of Rs. 1.02 crore as per segment reporting. However, after discontinuance of paper mill operations, packaged water bottle plant has been in focus and sales volume has been growing during 9MFY23 achieving TOI of Rs. 33.32 crore and PBIT of Rs. 1.79 crore as per segment reporting as compared to TOI of Rs. 10.07 crore in 9MFY22 from the same.

**High debt levels result in leverage capital structure and weak debt coverage indicators**

Despite schedule repayment of term loan, total debt of SRNL continued to remain high at Rs. 479 crore as on March 31, 2022 which has increased on y-o-y basis due to increase in unsecured loan from RSGBL to fund the losses apart from meeting its working capital requirement. Apart from loans from parent company, RSGBL, the debt of SRNL include working capital borrowings of Rs. 16 crore, debenture of Rs. 59 crore and term debt of Rs.44 crore as on March 31, 2022. The company has reduced all working capital borrowings and remained nil utilization except OD facility as on December 31, 2022 as the company has decided to shut down its paper division. Further, term debt repayments and payment of debentures are to be supported by infusion of funds by its parent as part from profits from bottling division. Also, board has passed a resolution to issue non-convertible cumulative redeemable preference shares of around Rs. 400 crore from parent, RSBGL which would be utilized to replace unsecured loans and meeting debt repayment obligations as per management articulation.

**Key Strengths**

**Experienced and resourceful parent**

Mr Ganpatraj Chowdhary, aged 59 years, is the Chairman of SRNL. His son, Mr Siddharth Chowdhary, who possesses more than a decade long experience in managing various businesses, looks after the overall operations of the company. The Chowdhary family has rich experience in corn and corn product industry through a venture namely RSGBL which was promoted by Mr Ganpatraj along with other family members in 1994 for manufacturing of starch and starch derivatives. RSGBL on standalone level generates wind energy, trades in agricultural commodities and is engaged in investment activities.

On Standalone level, RSGBL has liquid investment of around Rs.227 crore (including investment in PE funds) as on December 31, 2022 vis-à-vis its total debt obligation of Rs.65.56 crore. Apart from the available liquid investment, RSGBL has also extended short term Inter-corporate deposits (ICDs) to various parties which too can be called back on demand to support its liquidity according to the management. RSGBL further derives financial flexibility by virtue of its comfortable standalone leverage marked by overall gearing of 0.04 times as on March 31, 2022.

**Demonstrated support from RSGBL, the parent of SRNL**

RSGBL, promoter of SRNL, has gradually increased its equity stake in SRNL over the period of last few years. As on December 31, 2022, RSGBL held 74.76% equity stake in SRNL. Apart from equity investment, RSGBL has also extended loans and advances of Rs.343 crore as on December 31, 2021 (increased from Rs.296 crore as on March 31, 2021) which further increased to Rs.358.25 crores as on December 31, 2022. Infusion of unsecured loans from parents are applied for funding of losses, capex requirement and debt servicing in past.

**Liquidity: Stretched**

The liquidity of SRNL remains stretched due to cash loss incurred during FY21 and FY22 resulting into high reliance on support needed in the form of unsecured loans from its parent, RSGBL which is being utilized to support the overall operation and debt servicing. The current ratio and quick ratio remained moderate at 1.11x and 0.50x, respectively, as on March 31, 2022, as compared with 1.00x and 0.55x, respectively, as on March 31, 2021. During 9MFY23, the company has generated gross cash accruals of Rs. 3.89 crore. Cash and Bank balance remained very low at Rs. 0.08 crore as on March 31, 2022 and Rs. 0.04 crore as on December 31, 2022. SRNL has shown improvement in CFO during FY22 at Rs. 12.14 crore as compared to negative CFO of Rs. 7.00 crore in FY21. The average working capital utilization remained low at around 49% from January, 2022 to May, 2022 and later remained nil except OD facility as on December 31, 2022.

Further, the company has passed the resolution during EGM dt. March 21, 2023 to issue 10% Unlisted, Non-convertible, cumulative, non-participating redeemable preference shares (NCRPS) on private placement basis to promoter company, RSGBL for cash consideration amounting to Rs. 400 crores to replace unsecured loans and generate additional liquidity in the business.

## Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

## About the company and industry

## Industry Classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Consumer Durables | Consumer Durables | Plastic Products - Consumer |

Incorporated in 1994, SRNL was initially promoted by Mr. Vashu Ram Singhani. Subsequently, in the year 2003, West Coast Paper Mills Limited (WCPM) along with its promoters acquired the majority stake in SRNL. However, during FY16, RSGBL acquired the majority stake from WCPM and its promoters.

SRNL is engaged in manufacturing of packaged drinking water bottle of "clear" brand from July 2019 having installed capacity of 32,000 BPH (bottle per hour) funded through unsecured loans from RSGBL. SRNL sells water bottle to established and reputed customers of "Clear" brand such as Air India, Marriott etc. The company has shut down its paper division manufacturing facility during FY22. Further, SRNL has a captive coal-based power plant which has power generation capacity of 23 MW.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | 9MFY23 (UA) |
|---|---|---|---|
| Total operating income | 266.45 | 329.72 | 87.40 |
| PBILDT | -14.56 | -9.82 | 10.99 |
| PAT | -76.97 | -69.72 | -17.62 |
| Overall gearing (times) | 1.36 | 1.86 | 1.74 |
| Interest coverage (times) | -0.40 | -0.29 | 1.55 |

A: Audited; UA: Unaudited; Note: the above results are latest financial results available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated**: Annexure-4

**Lender details:** Annexure-5

## Annexure 1: Details of Instrument/Facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | March 2026 | 35.12 | CARE BB; Stable |
| Fund-based - LT-Working Capital Limits | | - | - | - | 58.14 | CARE BB; Stable |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 2.00 | CARE BB; Stable / CARE A4 |

## Annexure 2: Rating History of last three years

| Sr. No. | Name of the Instrument/ Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Fund-based - LT-Term Loan | LT | - | - | - | 1)Withdrawn (24-Mar-22) | 1)CARE BBB- (CE); Stable (02-Mar-21)<br><br>2)CARE BBB- (CE) (CW with Developing Implications) (18-Nov-20) | 1)CARE BBB (CE); Negative (21-Feb-20) |
| 2 | Fund-based - LT-Working Capital Limits | LT | 58.14 | CARE BB; Stable | 1)CARE BB; Stable (21-Apr-22)<br><br>2)CARE D (07-Apr-22) | 1)CARE BB (CW with Developing Implications) (24-Mar-22) | 1)CARE BB+; Stable (02-Mar-21)<br><br>2)CARE BB+ (CW with Developing Implications) (18-Nov-20) | 1)CARE BB+; Stable (21-Feb-20) |
| 3 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST * | 2.00 | CARE BB; Stable / CARE A4 | 1)CARE BB; Stable / CARE A4 (21-Apr-22)<br><br>2)CARE D / CARE D (07-Apr-22) | 1)CARE BB / CARE A4 (CW with Developing Implications) (24-Mar-22) | 1)CARE BB+; Stable / CARE A4+ (02-Mar-21)<br><br>2)CARE BB+ / CARE A4+ (CW with Developing Implications) (18-Nov-20) | 1)CARE BB+; Stable / CARE A4+ (21-Feb-20) |
| 4 | Fund-based - LT-Term Loan | LT | 35.12 | CARE BB; Stable | 1)CARE BB; Stable (21-Apr-22)<br><br>2)CARE D (07-Apr-22) | 1)CARE BB (CW with Developing Implications) (24-Mar-22) | 1)CARE BB+; Stable (02-Mar-21)<br><br>2)CARE BB+ (CW with Developing Implications) (18-Nov-20) | 1)CARE BB+; Stable (21-Feb-20) |

** Long Term / Short Term*

**Annexure -3: Detailed explanation of covenants of the rated instrument//facilities:** Not Applicable

**Annexure -4: Complexity level of various instruments rated for this Company**

| Sr. No | Name of instrument | Complexity level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT-Working Capital Limits | Simple |
| 3 | Non-fund-based - LT/ ST-Bank Guarantee | Simple |

**Annexure-5: Lender details**

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| To view the lender wise details of bank facilities please click here |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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