Ruchira Papers Limited

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.04	CARE A-; Positive	Assigned
Long Term Bank Facilities	78.74 (Reduced from 86.53)	CARE A-; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	5.75 (Reduced from 8.00)	CARE A-; Positive / CARE A2+	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	7.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ruchira Papers Limited (RPL) factors in continued improvement in operational and financial performance of the company marked by growing scale of operations and profitability margins which has been supported by uptick and sustained demand for writing and printing paper (WPP) along with higher net sales realisation (NSR). The operational efficiencies as a result of debottlenecking capex undertaken, modernization and upgradation of the plant also contributed towards expansion in profitability. The ratings also factor in RPL's established market position through wide distribution network and comfortable financial risk profile characterized by low overall gearing and healthy debt coverage indicators. However, the ratings are constrained on account of working capital-intensive nature of operations, susceptibility of margins to volatility in raw material prices and highly competitive and cyclical nature of paper industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainability of improved scale of operations with PBILDT margin above 13.50%.

Negative factors

- Deterioration in scale of operations with the PBILDT margin below 8% on a sustained basis.
- Any large debt-funded capex and increased reliance on working capital borrowings resulting in deterioration in overall gearing ratio to above 0.60x in the medium term.

Analytical approach: Standalone

Outlook: Positive

The Positive outlook reflects CARE's expectation of continued improvement in operational performance on the back of healthy demand prospects in W&PP segment with the implementation of New Education Policy (NEP).

Detailed description of the key rating drivers

Key strengths

Improved operational performance

The total operating income of the company grew y-o-y by ~31% to Rs. 804.42 Cr in FY23 (PY: Rs. 614.08 Cr) driven by increase in revenue contribution by WPP segment from 48% in FY22 to 61% in FY23, as a result of 48.22% increase in realization price of WPP in FY23 vis-à-vis FY22. The PBILDT margin of the company improved to 13.79% in FY23 (PY: 10.56%) owing to various reasons including increase in realization price of WPP and lower fixed overheads in FY23. Consequently, the PAT margin of the company improved to 8.41% in FY23 (PY: 5.39%). The increase in NSR in W&PP is a result of high pent-up demand and supply disruptions cause by Russia-Ukraine war and increase in wastepaper prices. Although the raw material prices have started tapering down, the moderation in NSR has been modest resulting in better profitability margins for RPL.

Comfortable financial risk profile

The financial risk profile of the company remains comfortable with overall gearing of 0.11x as on March 31, 2023 (PY: 0.21x). The improvement in gearing is mainly on account of scheduled repayment of term loans coupled with accretion of profits to net worth. The debt profile of the company as on March 31, 2023 comprise of term loans to the tune of Rs. 6.92 Cr and working capital borrowings to the tune of Rs.34.95 Cr (out of sanctioned limit of Rs.73.00 crore). Debt coverage indicators of the company also improved and stood comfortable with PBILDT interest coverage of 22.08x (PY: 10.65x) and total debt/GCA of 0.49x (PY: 1.34x) during FY23.

---

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

Established market presence through wide distribution network
Incorporated in 1980, the company has an established track record of operations of more than 4 decades. Further, the company has a country-wide marketing and distribution network to sell both kraft paper and WPP. Moreover, no customer of the company contributed more than 10% of the company's total revenue in FY23.

Experienced promoters
RPL was incorporated as a public limited company in 1980 by Mr. Umesh Chander Garg (Managing Director), Mr. Jatinder Singh (chairman), and Mr. Subhash Chander Garg (co-chairman). Mr. Umesh Chander Garg (aged 73 years) is a graduate by qualification and looks after production and maintenance department. Mr. Jatinder Singh (aged 68 years) is a B Tech from Punjab University and looks after finance and administration. Mr. Subhash Chander Garg (aged 80 years) is a law graduate with expertise in the field of taxation and looks after taxation, marketing and sales. All the three promoters have industry experience of more than 50 years.

Key weaknesses

Working capital intensive nature of operations
The operating cycle of the company is intensive at 71 days (PY: 79 days) in FY23 primarily on account of higher inventory holding days of 47 days (PY: 55 days). RPL is required to maintain adequate inventory mainly in the form of raw material to ensure smooth execution of production as well as maintain stock of finished products in order to meet the immediate needs of the customers. The company offers a credit period of around 50 days-60 days to its customers. The average creditor period of the company remained low at 11 days in FY23 (PY: 15 days).

Highly competitive industry along with susceptibility of margins to volatile raw material prices
The paper industry is highly fragmented in nature with stiff competition from a large number of organized as-well-as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. Also, the industry is impacted by economic cycles. Other than wastepaper, RPL also uses agro based raw material which is purchased from the domestic markets. With respect to the agro-based raw materials, there are limitations in their use due to seasonal availability leading to high volatility in their prices. Therefore, the operating profitability of the company remains highly susceptible to any volatility in raw material prices.

Cyclical nature of industry
The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players and threat from imports. This limits the pricing power of the manufacturers in terms of flexibility to pass on the raw material price fluctuation to its customers. The demand for paper is directly correlated to the level of economic activity, as higher industrial output leads to increased demand for industrial paper for packaging; increased marketing spend benefits the newsprint and value-added segments; and greater education and office activities raises the demand for WPP.

Industry prospects
The paper industry, including paper, newsprint, and paper products, witnessed a significant improvement in operating margins of 926 basis points (bps) in FY23 compared to the previous year for the top 10 listed companies based on market capitalisation. This improvement was primarily driven by revenue growth of 45%. The industry experienced higher volumes and a notable surge of nearly 40% in net realization, which contributed to the sharp improvement in operating margins. In the first three quarters of FY23, the paper industry demonstrated robust financial performance, fueled by pent-up demand and price hikes implemented by market players to capitalize on the surge in demand. However, during Q4FY23, the industry began showing signs of stabilization after achieving double-digit growth for eight consecutive quarters until Q3FY23. Factors such as China's ban on paper waste and supply disruptions resulting from the Russia-Ukraine war led to a significant increase in Net Price Realizations (NPR) worldwide, soaring from Rs. 70,000 per tonne to Rs. 100,000 per tonne. Looking ahead to FY24, CareEdge Ratings anticipates moderation in both topline and operating margins by 200 to 300 bps. This expectation is based on the stabilisation of demand and the cooling down of raw material prices, which is likely to result in a corresponding moderation of net price realisations.

Liquidity: Adequate
The liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs. 84.84 crore in FY24 against scheduled repayment of Rs. 6.41 crore in FY24. Further, the average utilization of working capital borrowings stood ~53% for the trailing 12 months ended May, 2023. The current ratio of the company stood strong at 2.30x (PY: 1.76x) as on March 31, 2023. The company is planning to incur capex in FY24 pertaining to modernization of machinery and shall be entirely funded through internal accruals and there is no large size capex envisaged in the near to medium term.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks
The pulp and paper industry is among the most polluting industries owing to large amount of water consumed along with hazardous chemicals used during the pulp bleaching process and therefore faces high risks emanating from Environmental and Social factors (E&S). Besides there are environmental concerns owing to replacement of natural forests by plantations. A

significant amount of capital expenditure may be required to comply with the guidelines issued by the Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB) to keep the waste generation and carbon emissions under check. RPL has an adequate Effluent treatment Plant (ETP) in place with adequate capacity to treat the wastewater generated during the manufacturing process and plantations to preserve natural environment against pollution and to meet emission norms set by the government. The company has in place adequate health and safety standards for its employees and labour and impart risk-based training programs from time to time. The factors considered for governance risks includes an optimum combination of executive and non-executive directors with more than 50% of the board members comprising Independent Directors. Further, the company has complied with the regulatory disclosure requirements in a timely manner.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

Ruchira Papers Limited was incorporated as a public limited company in 1980 by Mr. Umesh Chander Garg (Managing Director), Mr. Jatinder Singh (co-chairman), and Mr. Subash Chander Garg (Chairman). The company is into manufacturing of kraft paper and writing and printing paper with a total manufacturing capacity of 91,800 MTPA of kraft paper and 60,000 MTPA of writing and printing paper as on March 31, 2023, at its manufacturing plant located in Kala Amb, Himachal Pradesh.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	614.08	804.42
PBILDT	64.87	110.92
PAT	33.09	67.63
Overall gearing (times)	0.21	0.11
Interest coverage (times)	10.65	22.08

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 last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Proposed fund based limits		-	-	-	10.04	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	March 2024	5.74	CARE A-; Positive
Fund-based - LT-Working Capital Limits		-	-	-	73.00	CARE A-; Positive
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.75	CARE A-; Positive / CARE A2+
Non-fund-based - ST-ILC/FLC		-	-	-	7.00	CARE A2+

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Working Capital Limits	LT	73.00	CARE A-; Positive	-	1)CARE A-; Stable (23-Jun-22)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	5.75	CARE A-; Positive / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (23-Jun-22)	-	-
3	Fund-based - LT-Term Loan	LT	5.74	CARE A-; Positive	-	1)CARE A-; Stable (23-Jun-22)	-	-
4	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A2+	-	1)CARE A2+ (23-Jun-22)	-	-
5	Fund-based - LT-Proposed fund based limits	LT	10.04	CARE A-; Positive				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Proposed fund based limits	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: Lender details

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.

Contact us

Media Contact	**Analytical Contacts**
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Name: Sajan Goyal Director **CARE Ratings Limited** Phone: +91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Name: Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-120-4452005 E-mail: dinesh.sharma@careedge.in	Name: Sachin Mathur Assistant Director **CARE Ratings Limited** Phone: +91-120-4452054 E-mail: sachin.mathur@careedge.in Name: Charu Mahajan Analyst **CARE Ratings Limited** E-mail: charu.mahajan@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in