

Seshasayee Paper And Boards Limited

August 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE AA-; Stable and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has withdrawn the outstanding ratings of 'CARE AA-; Stable/ CARE A1+ assigned to the bank facilities of Seshasayee Paper and Boards Limited with immediate effect. The above action has been taken at the request of SPBL and 'No Objection Certificate' received from HDFC Bank and State Bank of India that have extended the facilities rated by CARE.

Rating sensitivities: Not Applicable

Analytical approach: Standalone

Standalone approach has been adopted as the subsidiaries are not in the same line of business. However, financial support to subsidiaries has been factored in our analysis.

Outlook: Stable

Stable outlook for the rating of SPBL factors in robust financial risk and improving operating performance as the company will continue to benefit from the uptrend in demand in the paper industry.

Detailed description of the key rating drivers:

Key strengths

Long track record coupled with vast promoter experience in the paper industry: Incorporated in 1960, SPBL has a well-established track record of more than six decades and commands a good reputation in southern India. It is the flagship company of the Esvin group, which is engaged in other industries like sugar, chemicals, project consultancy, etc. The promoters have a rich experience of more than six decades in the Indian paper industry. Currently, the day-to-day operations of the Erode and Tirunelveli units are handled by professional management and are ably supported by a team of qualified and experienced personnel instrumental in providing technical and managerial inputs. The company is supported by its in-house project consultancy company named SPB Projects and Consultants Limited (SPB-PC), which is the project consultant for most major paper companies in India.

Well-established distribution network: SPBL has a strong marketing set-up with a well-established distribution network to support the manufacturing activities and commands a strong goodwill in south India. It has a well-built network of more than 70 active indentors distributing SPB's products across India and 10-11 international agents. Majority of its dealers are from the southern part of India. The company also exports its products to countries like United State of America, Sri Lanka, Nepal and Middle East countries. Its production is largely order based procured by its dealer network.

Integrated operations and synergies between manufacturing facilities support enhanced operating efficiency:

Paper manufacturing involves a number of processes. SPBL has integrated operations between acquiring raw materials to selling paper across various countries. From operations perspective, the Erode and Tirunelveli facilities share significant synergies, wherein the company has an excess capacity of pulp manufacturing at its Erode facility, which is deployed at Tirunelveli unit, thereby reducing the latter's dependency on imported pulp. The excess pulp production at the Erode unit caters to two thirds of the pulp requirement of the Tirunelveli plant.

Also, the captive power plant of 21 MW at Erode unit is able to supply power, whenever required, to the Tirunelveli unit and thereby reduces its dependence on external sources. CARE Ratings notes that the aforementioned synergies have led to savings in the raw material as well as energy cost, thereby positively impacting the profit margins.

Improved operating performance, expected to continue: In FY22, the total operating income (TOI) improved by 73% led by increase in the volumes to the tune of 24.65% along with increase of 103.73% in exports to the tune of 57,010 tons.

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

The company witnessed a growth in TOI of around 71% Y-o-Y for the 9MFY23 period. The PBILDT margin for FY22 reduced by 166.5 bps (to 12.42%) Y-o-Y mainly due to uncertainty of pandemic and the Russia-Ukraine war, towards the end of FY22. However, the EBITDA margins picked up Q1FY23 onwards, displaying robust performance in Q2FY23 and Q3FY23. In 9MFY23, the company reported TOI of ₹1,531.33 crore led by increase in both volumes and Net Sales Realisations. The operating profit for 9MFY23 increased by 304% to ₹399.10 crores and the operating margin increased by a significant 1364 bps. The Erode unit is expected to achieve close to 100% capacity utilisation in FY 23, in the 1st full year post capitalization of project MDP-III. The Tirunelveli unit's capacity utilisation is expected to be around 86% in FY 23. The realisations have also increased by 39.68% in the period between March 31, 2022, and December 31, 2022. Although, going ahead, margins would moderate with decline in paper prices, they are expected to remain at healthy levels.

Robust debt protection indicators: The debt coverage indicators of the company continued to remain robust marked by overall gearing of 0.04x in FY22 (PY: 0.04x) led by healthy accretion of profits to reserves and repayment of sales tax deferral loan. The other debt coverage indicators like total debt/gross cash accruals (TD/GCA), total debt/PBILDT continued to remain below unity in FY22. SPBL has been net debt free since past 5 years. Going forward CARE Ratings expects the overall gearing to remain robust owing to healthy cash accruals.

Key weaknesses

Profit margins susceptible to volatile input prices: The company is exposed to the volatility associated with the raw material prices and fuel prices. Wood pulp forms a key raw material for all paper manufacturers, the prices of which have been volatile and witnessed an upward trend in the current year. In the current year, wood prices increased in Tamil Nadu significantly mainly due to heavy rains and increased demand from other manufacturers. In order to mitigate the risk and ensure long-term raw material availability, SPBL has taken steps to step-up the production of clonal seedlings and bare-rooted seedlings at its nursery and other company-sponsored nurseries. SPBL actively pursues contract farming program to secure wood. With excess production of pulp at the Erode plant, the company has also lowered the dependence on imported pulp to a certain extent as well, which in turn has also contributed to significant increase in the margins. Furthermore, the company imports coal and any volatility in the coal price can affect the profitability margins and to partially offset this risk, the company had started utilizing bio-fuels, reducing dependency on imported coal. Nonetheless, SPBL's profit margins remain exposed to the fluctuations in key raw material prices (wood, wood pulp, wastepaper, bagasse and coal) depending on the demand-supply dynamics.

Inherent cyclicity; competitive industry with paper players facing import threat: The paper industry is inherently cyclical owing to the long gestation period in capacity addition and lead time for raw material generation, among other factors. The demand is dependent on the education and corporate sectors, which are affected by the overall macroeconomic situation. Indian paper industry has a fragmented structure consisting of small, medium and large paper mills, having capacities ranging from 5 to 1,150 tonnes per day. The increased competition restricts companies' ability in the paper industry to pass on the rise in the input cost to the end consumers and keep the margins under check in the near-term.

Liquidity: Strong

The company had negligible long-term debt consisting of sales tax deferral loan to the tune of ₹3.56 crore and lease liability of ₹0.02 crore as on March 31, 2022. As on December 31, 2022, the company had cash balances to the tune of ₹445.81 crore (of which ₹209.4 crore is earmarked for non-fund-based limits). Moreover, the company has nil utilisation of ₹61 crore fund-based limits which provides more than adequate liquidity cushion.

Environment, social, and governance (ESG) risks

Paper manufacturing industry generates a notable amount of industrial air, water and land emissions as discarded paper and boards make up a large portion of landfills, which poses a threat to the environment. SPBL facilities are installed with ElectroStatic Precipitators to arrest dust emissions. The company operates in an Anaerobic Lagoon; and has set up a water treatment facility for high Biochemical Oxygen Demand (BOD) liquid effluents. Paper manufacturing is labour-intensive; therefore, manufacturers are exposed to the risk of disruption from managing human capital efficiently, ensuring safety and overall well-being. However, SPBL is committed to reducing the social risk by providing equal opportunities and the right to freedom of association/participation in addition to taking cognisance of the work-life balance of all employees. To address the governance risk, the company has formulated Business Responsibility Policy highlighting the company's ethical and responsible behaviour which complements the corporate culture. The policy is intended to ensure that SPBL adopts responsible business practices in the interest of the social set-up and the environment so that it contributes beyond financial and operational performance.

Applicable criteria

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

About the company and industry

Industry classification

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

Seshasayee Paper and Boards Limited (SPBL) operates an integrated pulp, paper and paper board mill at Pallipayam (Erode, Tamil Nadu) and a paper manufacturing mill at Tirunelveli. SPB was incorporated in 1960 and commenced commercial production in December 1962 with a capacity of 20,000 tonne per annum (TPA) integrated facility comprising of a pulp mill and two paper machines (PM 1 and PM 2). Over the years, through organic expansion, the company expanded its Erode facility to its current capacity of 1,65,000 TPA as on date. Further the Tirunelveli unit has capacity to produce 90,000 TPA of Paper. SPBL manufactures a variety of papers such as printing and writing (P&W) grade papers (WPP), packing and wrapping grade papers, specialty grade papers, etc. The company markets its paper products in the domestic market under the brand names of Sprint, Sprint Plus, Swift, and Success; which are amongst the leading brands in southern India

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,357.96	2,082.53	581.59
PBILDT	168.62	534.06	238.04
PAT	103.10	386.54	71.71
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	58.75	214.48	476.08

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

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-Term Loan	LT	-	-	-	1)Withdrawn (06-Apr-22)	1)CARE A+; Stable (06-Apr-21)	1)CARE A+; Positive (07-Apr-20)
2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE AA-; Stable (03-Apr-23)	1)CARE A+; Stable (06-Apr-22)	1)CARE A+; Stable (06-Apr-21)	1)CARE A+; Positive (07-Apr-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A1+ (03-Apr-23)	1)CARE A1+ (06-Apr-22)	1)CARE A1+ (06-Apr-21)	1)CARE A1+ (07-Apr-20)

*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-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	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.

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About us:

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