

## Shreyans Industries Limited

November 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	35.63 (Reduced from 40.42)	CARE A-; Stable	Reaffirmed
Short Term Bank Facilities	55.00 (Enhanced from 44.00)	CARE A2+	Reaffirmed
Fixed Deposit	2.44 (Reduced from 5.94)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and fixed deposit program of Shreyans Industries Limited (SIL), continues to derive strength from the experienced promoters, long track record of operations and comfortable liquidity position of the company. The ratings further derive strength from the improved operational performance during FY23 (refers to the period from April 01, 2022 to March 31, 2023) and H1FY24 (refers to the period from April 01, 2023 to September 30, 2023) supported by higher volumes and realization of Writing and Printing Paper (WPP), comfortable solvency position marked by low overall gearing, well-established distribution network, diversified product profile, and proximity of the manufacturing plant to raw material sources. The ratings, however, remain constrained by competitive nature of the industry and susceptibility of profitability margins to volatility in raw material prices & foreign exchange fluctuations.

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

#### Positive factors

- Improvement in scale of operations with PBILDT margin above 15% on a sustained basis.

#### Negative factors

- Under-achievement of the projected total operating income by more than 25% and decline in profitability which may adversely impact the liquidity of the company with decrease in unencumbered mutual fund investments.
- Any major debt funded capex or high reliance on working capital borrowings resulting in total debt/PBILDT above 1.50x.

### Analytical approach: Standalone

#### Outlook: Stable

CARE Ratings believes that the entity shall sustain its strong financial risk profile over the medium term on back of its strong liquidity profile. CARE also believes that improvement in cash accruals of the company over medium term shall further support its liquidity profile.

### Detailed description of the key rating drivers:

#### Key strengths

**Improvement in operational performance in FY23 and H1FY24:** There was a substantial increase in realization price of WPP (Writing and printing paper) during FY23 on account of various reasons including pent-up demand and price hikes implemented by market players to capitalize on surge in demand, China's ban on paper waste, and supply disruptions resulting from Russia-Ukraine war. The same led to growth in total operating income of the company by ~48% during FY23 to Rs.865.88 crore (PY: Rs.584.92 crore). Further, The PBILDT and PAT margin of the company improved substantially to 12.78% (PY: 1.89%) and 8.48% (PY: 1.70%) in FY23 respectively owing to increase in realization price of WPP.

During H1FY24, the total operating income of the company declined by ~12% to Rs.359.00 crore (PY: Rs.408.52 crore). However, the PBILDT margin of the company improved further to 17.55% (PY: 10.96%) owing to reduction in raw material cost (primarily wheat straw and caustic eye). The same led to improvement in PAT margin to 14.39% (PY: 7.14%).

**Comfortable Solvency position:** The solvency position remained comfortable with overall gearing ratio of 0.14x as on March 31, 2023 (PY: 0.27x). The debt coverage indicators of the company improved substantially as reflected by PBILDT interest coverage of 20.56x (PY: 1.84x) and total debt/GCA of 0.47x (PY: 2.46x) in FY23.

**Experienced promoters with long track record of operations:** SIL has been engaged in the manufacturing of writing and printing paper (WPP) business for more than three and a half decades now which has led to well-established relationships with the suppliers as well as the customers. Mr Rajneesh Oswal, Chairman, has an overall experience of more than two and a half decades. Mr. Vishal Oswal (brother of Mr. Rajneesh Oswal), Managing Director, has an overall experience of more than two

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

decades. Other directors of the company include Mr Kunal Oswal having an overall experience of around one and a half decade. The promoters have extended financial support in the past to fund various business requirements of the company.

**Diversified product profile along with an established distribution network:** SIL manufactures WPP with a GSM (Grams per square meter) range between 44 to 200 GSM and a brightness range of 75% to 90%. The paper finds its application in printing of books, note books, calendars, diaries, newspaper supplements, pamphlets, computer stationary, playing cards, brochures, magazines and copier paper, envelope making, etc. It has one marketing branch in Delhi along with a network of around hundred dealers all over India. The company sells to government clients where orders are procured on tender basis as well as to private players. The company also exports its products to UAE, Nepal, Sri Lanka etc. The income derived from this segment, however, remained negligible. The diversified product portfolio and established distribution network will continue to support the business risk profile over the medium term.

**Proximity of the manufacturing plants to raw material sources:** Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw, sarkanda, rice husk, etc. The plant is located in an established agricultural belt, viz, Punjab, leading to easy and ample availability of raw materials.

## Key weaknesses

**Susceptibility of margins to foreign exchange fluctuations:** SIL imports wood pulp from USA, Sweden, Canada etc. Imported raw materials formed ~16% of the total raw material cost in FY23 (amounting to Rs.63.89 crore; PY: Rs.49.29 crore). The proceeds from exports in foreign currency, however, remained at Rs.28.22 crore in FY23 (PY: Rs.28.21 crore). This provides a minimal natural hedge to a certain extent. Furthermore, the company avails forward contracts from time to time to hedge a portion of the foreign exchange risk. However, some portion of the exposure still remains unhedged, exposing the profitability of the company to any adverse fluctuation in the foreign exchange prices. In FY23, the company reported a gain of Rs.0.35 crore on foreign currency transaction (PY: gain of Rs.0.48 crore).

**Highly competitive industry along with susceptibility of margins to volatility in prices of raw material:** The paper industry is highly fragmented in nature with stiff competition from a 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. SIL primarily uses agro based raw material which is purchased from the domestic markets. Their use is associated with limitations like 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.

**Industry prospects:** Careedge Ratings expects that as the demand softens and with an expected increase in global pulping capacity, the NPR (Net price realization) is expected to be in the range of Rs. 75,000 per tonnes to Rs. 85,000 tonnes for FY24 (refers to the period from April 01, 2023 to March 31, 2024). This moderation of NPR is expected to moderate the top line and operating margins by 200-300 bps from H2FY24 (refers to the period from October 01, 2023 to March 31, 2024), an after effect of softening of raw material prices in H1FY24 (refers to the period from April 01, 2023 to September 30, 2023).

**Liquidity: Adequate** – Liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.77.88 crore in FY24 against scheduled term loan repayments to the tune of Rs.7.77 crore. Further, the average utilization of working capital borrowings stood at ~17% for the trailing 12 months ended September 30, 2023. The company has liquid mutual fund investments (quoted at market value) to the tune of Rs.200.51 crore as on September 30, 2023, out of which Rs.165.51 crore were unencumbered investments. SIL is expected to incur capex of ~Rs.13.00 crore in FY24 pertaining to improvement in quality of WPP manufactured and the same shall be entirely funded from internal accruals.

## 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

Shreyans Industries Limited (SIL) was initially incorporated in 1979 by the name 'Shreyans Paper Mills Limited' by Mr D.K. Oswal and his family members. Subsequently, in October 1992, the company's name was changed to SIL. The company is engaged in the manufacturing of WPP. SIL initially started its operations with an installed capacity of 10,000 metric tonnes per annum (MTPA) at its manufacturing facility in Ahmedgarh, Punjab. In the year 1994, the company purchased the paper division (by the name M/s Zenith Papers) of M/s Zenith Limited, situated in S.B.S Nagar (Punjab). SIL is operating the same by the name, Shree Rishabh

Papers. As on March 31, 2023, the company had a combined installed capacity of 94,000 MTPA. SIL's products are being sold primarily in the domestic market under the brand name 'Shreyans'.

### Industry classification

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

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (UA)
Total operating income	584.92	865.88	359.00
PBILDT	11.08	110.64	62.99
PAT	9.96	73.46	51.67
Overall gearing (times)	0.29	0.14	0.14
Interest coverage (times)	1.84	20.56	34.23

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
Fixed Deposit		-	-	-	2.44	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March, 2026	10.63	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	55.00	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-Term Loan	LT	10.63	CARE A-; Stable	-	1)CARE A-; Stable (25-Nov-22)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Stable (16-Feb-21)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (25-Nov-22)	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Stable (16-Feb-21)
3	Non-fund-based - ST-BG/LC	ST	55.00	CARE A2+	-	1)CARE A2+ (25-Nov-22)	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (16-Feb-21)
4	Fixed Deposit	LT	2.44	CARE A-; Stable	-	1)CARE A-; Stable (25-Nov-22) 2)CARE A-; Stable (22-Jun-22)	1)CARE A-(FD); Stable (07-Jan-22)	1)CARE A-(FD); Stable (16-Feb-21)

\*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	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	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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