Ruchira Papers Limited

July 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	147.00 (Enhanced from 78.74)	CARE A-; Stable	Reaffirmed; Outlook revised from Positive
Long Term / Short Term Bank Facilities	5.75	CARE A-; Stable / CARE A2+	Reaffirmed; Outlook revised from Positive
Short Term Bank Facilities	7.00	CARE A2+	Reaffirmed
Long Term Bank Facilities*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

*The proposed facility of Rs.10.04 crores was not availed by the company and hence withdrawn.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ruchira Papers Limited (RPL) factor in experienced promoters along with established market position through wide distribution network, comfortable financial risk profile backed by low overall gearing and healthy debt coverage indicators. Though, the total operating income and profitability of the company were impacted owing to the subdued industry scenario during FY24 (*refers to period from April to March*), however the same was offset by its adequate operational cash flows generated over the years thereby leading to lower dependence on working capital borrowings. Further, the ratings continue to remain 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.

At the request of the company vide letter dated June 18, 2024, we hereby withdraw the outstanding rating(s) of 'CARE A-; /Positive; CARE A2+' [A Minus; Outlook: Positive/ A Two Plus] assigned to the proposed facility of your company with immediate effect.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in 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 approach

Outlook: Stable

The revision in the outlook from positive to stable reflects lower than expected operational performance of the company during FY24 owing to the declining trend of Net Sales Realizations (NSR) observed across the paper industry. The stable outlook that the rated entity is likely to sustain its comfortable financial risk and liquidity profile amidst healthy cash flow generation from operations.

Detailed description of the key rating drivers:

Key strengths

Comfortable financial risk profile

The financial risk profile of the company remained comfortable with overall gearing of 0.11x as on March 31, 2024 (PY: 0.11x). The debt profile of the company as on March 31, 2024 comprised of term loan to the tune of Rs. 6.27 Cr and working capital

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

borrowings to the tune of Rs.38.04 Cr (out of sanctioned limit of Rs.73.00 crore). Debt coverage indicators of the company also stood comfortable with PBILDT interest coverage of 23.12x (PY: 21.73x) and total debt/GCA of 0.66x (PY:0.49x) during FY24. Further, the company has lower dependence on its working capital borrowings due to the trend of adequate operational cash flows generated over the years.

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 Writing and Printing Paper (WPP). Moreover, no customer of the company
contributed more than 10% of the company's total revenue in FY24.

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.

Stable Operational performance

Owing to the overall downturn in the paper industry, the company reported y-o-y moderation of ~18% in the total operating income, which stood at Rs.657.60 crores in FY24. The volumes remained almost stagnant during the year owing to the plant shut down for 15 days for the modification purposes by the company. However, the primary reason for de-growth in sales revenue was the decline in the average Net Sales Realizations (NSR), whereby the NSR for kraft paper reduced to Rs.28,299 per MT in FY24 (PY: Rs.35,652 per MT), and the NSR for W&PP segment reduced to Rs.71,414 per MT in FY24 (PY: Rs.82,902 per MT). Due to the same, the PBILDT margin also moderated by ~117 bps and still stood healthy at 12.43% in FY24 (PY: 13.60%). However, the company expects to achieve better volumes along with operating profitability going forward owing to the capex projected alongside the various measures undertaken to reduce input costs as well as power and fuel expenses.

Key weaknesses

Working capital intensive nature of operations

The operating cycle of the company increased and stood at 94 days in FY24 (PY: 71 days) primarily on account of higher inventory holding days of 59 days (PY: 47 days) and increase in debtor days to 44 days (PY: 34 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 30 days-45 days to its customers. The average creditor period of the company remained low at 9 days in FY24 (PY: 11 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

There was a downtrend observed in the paper industry in FY24 on the back of fall in the realizations despite higher input costs on the back of increased competition from imports. There was a sharp drop in the prices of Packaging board as well as the Maplitho paper and the Coated paper with also a slight drop in the price of Copier paper. At the same time, there was some commodity price correction also including the pulp and coal and that gave some benefit, however wood cost which is a basic raw material for integrated pulp manufacturer remained very high and went up sharply by close to ~30 to 35% and therefore impacted the profitability. However, rebound is expected FY25 onwards as the adoption of New Education policy is likely to boost the demand for WPP segment along with increasing penetration of specialized and conventional packaging in sectors such as FMCG, healthcare, e-commerce, pharmaceuticals, etc. Other key demand factors will include a focus on innovative and attractive packaging and the shift from plastic to paper-based packaging in the FMCG and food & food product sectors.

Liquidity: Adequate

The liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs. 80.65 crore in FY25 against scheduled repayment of Rs. 1.25 crore. Further, the average utilization of working capital borrowings stood ~49% for the trailing 12 months ended April 2024. The current ratio of the company stood strong at 2.80x (PY: 2.30x) as on March 31, 2024. The company is planning to incur capex in FY25 & FY26 pertaining to modernization of machinery of Rs.100 crores and the same is expected to be funded from a combination of debt and internal accruals in the ratio of 3:1.

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. 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. Further, the company has good governance practices considering an optimum combination of executive and non-executive directors with more than 50% of its board comprising of Independent Directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Withdrawal Policy
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

Ruchira Papers Limited was incorporated as a public limited company in 1980 by Mr. Umesh Chander Garg, Mr. Jatinder Singh, and Mr. Subash Chander Garg. The company is into manufacturing of kraft paper and writing and printing paper with a total manufacturing capacity of 1,18,800 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, 2023 (A)	March 31, 2024 (A)
Total operating income	802.70	657.60
PBILDT	109.19	81.85
PAT	67.63	49.19
Overall gearing (times)	0.11	0.11
Interest coverage (times)	21.73	23.14

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

Status of non-cooperation with previous CRA: CRISIL has placed the rating assigned to the bank facilities of Ruchira Papers Limited into Issuer Not Cooperating category vide their press release dated July 04, 2023, on account of their inability to carry out a review in the absence of requisite information.
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-Proposed fund based limits		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	March 2024	74.00	CARE A-; Stable
Fund-based - LT-Working Capital Limits		-	-	-	73.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	5.75	CARE A-; Stable / 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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	73.00	CARE A-; Stable	-	1)CARE A-; Positive (29-Jun-23)	1)CARE A-; Stable (23-Jun-22)	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	5.75	CARE A-; Stable / CARE A2+	-	1)CARE A-; Positive / CARE A2+ (29-Jun-23)	1)CARE A-; Stable / CARE A2+ (23-Jun-22)	-
3	Fund-based - LT-Term Loan	LT	74.00	CARE A-; Stable	-	1)CARE A-; Positive (29-Jun-23)	1)CARE A-; Stable (23-Jun-22)	-
4	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A2+	-	1)CARE A2+ (29-Jun-23)	1)CARE A2+ (23-Jun-22)	-
5	Fund-based - LT-Proposed fund based limits	LT	-	-	-	1)CARE A-; Positive (29-Jun-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

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.

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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.

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