

Silvertoan Papers Limited

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	99.52	CARE BB+; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BBB-; Positive and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	10.00	CARE A4+; ISSUER NOT COOPERATING*	Downgraded from CARE A3 and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Silvertoan Papers Limited (SPL) to monitor the ratings vide e-mail communications/letters dated September 24, 2024, September 23, 2024, August 06, 2024, July 25, 2024, etc. among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Silvertoan Papers Limited's bank facilities will now be denoted as **CARE BB+; Stable; ISSUER NOT COOPERATING/CARE A4+; ISSUER NOT COOPERATING ***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been downgraded on account of non-availability of requisite information due to non-cooperation by SPL with CARE Ratings Ltd.'s efforts to undertake a review of the rating outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk.

Further, the rating remains constrained by the intense competition faced by the company in the kraft paper segment from the many organised and unorganised players in the field. Further, its profitability margins are vulnerable to fluctuations in input prices. The ratings also consider the risks associated related to regulations on availability and usage of water and other inputs in the manufacturing process.

The rating is, however, derives comfort from steady operating income and improved profitability margins supported by availability of agrowaste-based raw material and cogeneration operations. The ratings also take into account SPL's comfortable capital structure, debt coverage indicators, long track record of operations and established market position in the kraft paper industry (especially in North India).

Analytical approach:

Standalone

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on September 18, 2023, the following were the rating strengths and weaknesses (FY23 Audited financials updated)

Key weaknesses

Highly competitive and cyclical nature of industry

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. 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.

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

Vulnerability of profitability margins to volatility in raw material prices

Raw material cost constitutes around 60% of total cost of sales whereas power cost constitutes around ~16% total cost of sales for SPL in last three years. The key raw materials used in the manufacturing process is wheat straw, bagasse, and wastepaper. SPL decides on wastepaper procurement depending on market condition, required quality/ grade of wastepaper, exchange rate etc. Prices of wastepaper are volatile based on the global demand-supply dynamics. With COVID 19 pandemic emerging in the later part of FY20 and subsequent lockdown imposed by various nations across the world, there was mismatch between the demand and supply of wastepaper leading to an increase in the price of wastepaper. Accordingly, profitability of the entities engaged in the paper and paper manufacturing is exposed to the raw material volatility as there is some time-lag in passing on the increased cost to customer.

Key strengths

Established track record of operations and experienced management

SPL is engaged in the manufacturing of kraft paper since 1990, thereby having a track record of more than three decades which has helped the company in establishing long-standing relationships with its customers and suppliers. The company was taken over by existing promoters in 2005, after it was declared a sick unit in the year 2003 due to poor quality of production, power shortage and other operational inefficiencies. Mr. Amrish Kumar Singhal, Chairman has an overall experience of more than 2 decades in the paper industry, while other promoters have over a decade of experience. The top management is ably supported by a team of professionals who are highly experienced in their respective domains.

Comfortable operational performance and cost structure supported by agrowaste-based manufacturing and cogeneration operations

The total operating income of the company increased at a CAGR of 8.24% over a period of last five financial years to Rs. 377.13 Cr in FY23 (PY: Rs. 368.18 Cr). The total operating income improved marginally in FY23 over last fiscal supported by volume growth. The company's profitability improved marked by PBILDT margin of 7.52% in FY23 (PY: 5.17%) owing to reduction in cost of consumable stores, other manufacturing expenses and selling expenses. Further, PAT margin of the company improved to 4.19% in FY23 (PY: 2.54%). The main raw material for kraft paper is agrowaste like bagasse and wheat straw along with wastepaper. Given the favourable location of its plant amid a major sugar and agricultural belt, the company benefits from ample raw material supply and relatively low logistic costs. It also has an agrowaste based co-generation unit with an installed capacity of 4 MW. The total power requirement of the company is 6.5 to 7 MW. Besides electricity, the steam generated from the captive power plant is also used for digesting and drying purposes. Both these factors favourably impact the company's cost structure. The waste to energy (bio-methanation) plant set up and operationalized in July 2023 is expected to provide further support to margins.

Comfortable financial risk profile

The capital structure of the company is expected to remain comfortable going forward with peak overall gearing of 1.01x as on March 31, 2023. Net worth of the company has increased to Rs. 88.67 Cr as on March 31, 2023 (PY: Rs. 72.85 Cr) owing to healthy accretion to reserves. The company is undertaking capex of Rs. 70.26 Cr of which Rs. 52.50 Cr is to be funded through term loan, of which Rs. 25.57 Cr was disbursed till March 31, 2023, and balanced is to be disbursed in the current year. The coverage indicators have continued to remain comfortable as reflected by total debt to PBILDT of 3.14x as on March 31, 2023 (PY: 2.90x) and interest coverage ratio of 6.06x for FY23 (PY: 5.38x). Despite debt-funded capex, SPL's coverage metrics are expected to remain comfortable in the near to medium term.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals against Rs. 9.30 Cr of scheduled repayment obligations in FY24 and cash balance of Rs. 3.57 Cr along as on March 31, 2023. Liquidity is further supported by above unity current ratio and SPL's efficiently managed working capital operations despite some moderation in operating cycle days of 55 days (PY: 49 days). The moderation in operating cycle is due to higher level of bagasse inventory maintained due to surge in prices of wastepaper. Debtor's collection period stood around 60 days as the payments from distributors are realized within 2 months. The raw material is generally procured from farmers, sugar mills and dealers from nearby cities, leading to an overall credit period of payment period 1-1.5 months to the company. Though, the company has utilized its working capital limits at an average of ~95% during the trailing twelve months ending June 2023, it has been able to scale up its operations with limited enhancement in working capital limits over the last five years. Liquidity of the company is expected to remain adequate over the medium term.

Applicable criteria

[Definition of Default](#)
[Policy in respect of non-cooperation by issuers](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Paper & Paper Products](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[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

SPL was incorporated in the year 1990 as a private limited company by Mr. S.K. Goyal and later reconstituted as public limited in the year 1993. It subsequently became a sick company in 2003 due to poor quality of production, power shortage and other operational inefficiencies. The company was taken over in 2005 and is currently promoted by Mr. Amrish Kumar Singhal along with his family members. The company primarily manufactures kraft paper. Its production facility is located at Muzaffarnagar (Uttar Pradesh) and has a total production capacity of 1,32,000 MTPA. It has a distribution network of more than 50 distributors. Furthermore, SPL also has a turbine power plant of 4 MW and a chemical recovery plant.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	368.18	377.13	67.04
PBILDT	19.05	28.37	5.84
PAT	9.34	15.82	3.77
Overall gearing (times)	0.76	1.01	8.71
Interest coverage (times)	5.38	6.06	5.62

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

Status of non-cooperation with previous CRA: Brickwork has continued the ratings assigned to the bank facilities of Silvertoan Papers Limited to the "Issuer Not-Cooperating" category vide its press release dated May 30, 2024 on account of its inability to carryout review in the absence of requisite information from the company.

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	36.81	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	March 2026	62.71	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A4+; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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-Term Loan	LT	62.71	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Positive (18-Sep-23)	1)CARE BBB-; Stable (22-Jun-22)	-
2	Fund-based - LT-Cash Credit	LT	36.81	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Positive (18-Sep-23)	1)CARE BBB-; Stable (22-Jun-22)	-
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3 (18-Sep-23)	1)CARE A3 (22-Jun-22)	-

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: 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	Fund-based - LT-Term Loan	Simple
3	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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Disclaimer:

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