Shreyans Industries Limited

November 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	30.45 (Reduced from 35.63)	CARE A-; Stable	Reaffirmed
Short-term bank facilities	55.00	CARE A2+	Reaffirmed
Fixed deposit	1.46 (Reduced from 2.44)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities and fixed deposit programme of Shreyans Industries Limited (SIL) continues to derive strength from its experienced promoters, long track record of operations, and comfortable liquidity position of the company. Ratings continue to derive strength from the comfortable solvency position marked by low overall gearing, softening of input prices leading to improvement in the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins, however, moderate total operating income (TOI) due to decline in the volume and net sales realisations (NSR) of Writing & Printing Paper (W&PP) segment, though the same was offset by its adequate operational cash flows generated over the years, leading to lower dependence on working capital borrowings. Ratings also continue to derive comfort from well-established distribution network, diversified product profile, and proximity of the manufacturing plant to raw material sources.

However, ratings continue to remain constrained by competitive nature of the industry and profitability susceptible margins to raw material price volatility and foreign exchange fluctuations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations by 20% or more with improvement in PBILDT margin above 15% on a sustained basis.

Negative factors

- Under-achievement of the projected total operating income by more than 25% and/or significant 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 Limited (CARE Ratings) expects the company to have stable operational performance and shall sustain its strong financial risk profile over the medium term on back of its strong liquidity profile.

Detailed description of key rating drivers:

Key strengths

Stable operational performance

Softening of input prices has led to improving PBILDT margin in the last few fiscals. The company's PBILDT margin improved to 14.01% in FY24 (PY: 12.78%) owing to decrease in raw material cost (primarily wheat straw and caustic lye). Earlier in FY23, due to high input prices, the NSR was high which has currently normalised as a result of softening of input prices. The company's profit after tax (PAT) margin improved to 12.50% in FY24 (PY: 8.48%) owing to improvement in PBILDT margin and non-operating income of ₹34.25 crore (PY: ₹1.56 crore) reported in FY24, which majorly includes gain on fair value of mutual fund investments amounting to ₹30.07 crore.

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

Despite the overall downturn in the W&PP industry, the company has demonstrated resilience. Although there was a year-on-year moderation of ~19% in TOI, which stood at ₹699.61 crore in FY24 (compared to ₹865.88 crore in the previous year), the company managed to maintain stability. The volumes remained almost stagnant in Q1FY25 (refers to April 01, 2024 to June 30, 2024) owing to the planned shut down of the plant for 10 days for modification purposes by the company.
The primary reason for de-growth in sales revenue was the decline in the average NSR, whereby the NSR for W&PP segment reduced to ₹69,729 per MT in FY24 (PY: ₹80,218 per MT) and volumes reduced to 88,850 MT in FY24 (PY: 93132 MT). In Q1FY25, the TOI stood low at ₹187.81 crore.

Additionally, the company expects to achieve better volumes going forward owing to the capex projected in near to medium term. These include the Steam & Condensate system, installation of a Closed hood and pocket ventilation for the paper machine and replacing the current surface coating machine with an advanced speed sizer. These improvements are expected to enhance operational quality and overall energy efficiency by reducing steam consumption.
The rebound is expected from FY25 onwards, as the adoption of the New Education policy is likely to boost demand for WPP segment. Other key demand factors will include a focus on innovative and attractive packaging and the shift from plastic to paper-based packaging in fast-moving consumer good (FMCG) and food & food product sectors.

Comfortable solvency position
The solvency position remained comfortable with overall gearing ratio of 0.09x as on March 31, 2024 (PY: 0.14x) mainly considering low reliance on external borrowings as the cash flow from operations stood healthy at ₹77.12 crore in FY24. The debt coverage indicators of the company remained comfortable as reflected by PBILDT interest coverage of 23.05x (PY: 20.56x) and total debt to gross cash accruals (TD/GCA) of 0.32x (PY: 0.47x) in FY24 considering low finance cost and improvement in the GCA of the company.

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

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

Proximity of manufacturing plants to raw material sources
Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw, sarkanda, and rice husk, among others. The plant is in an established agricultural belt, 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, Indonesia and Canada. Imported raw materials formed ~16% of the total raw material cost in FY24. The proceeds from exports remained at Rs.2.47 crore in FY24 (PY: Rs.4.74 crore). This provides a minimal natural hedge to a certain extent. Further, 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 FY24, the company reported a gain of Rs.0.44 crore on foreign currency transaction (PY: gain of Rs.0.35 crore).

Highly competitive industry and margins susceptible to raw material volatility

The paper industry is highly fragmented in nature with stiff competition from a large number of organised and unorganised 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 company's operating profitability remains highly susceptible to raw material price volatility.

Liquidity: Adequate

Liquidity position of the company is adequate as reflected by adjusted GCA to the tune of ~₹75.87 crore in FY24 against scheduled gross loan repayments to the tune of ₹8.84 crore. The average utilisation of working capital borrowings stood at ~20% for the trailing 12 months ended August 31, 2024. The company has liquid mutual fund investments (quoted at market value) to the tune of ₹219.86 crore as on March 31, 2024, out of which ₹155.95 crore were unencumbered investments. SIL is expected to incur capex of ~₹19.00 crore in FY25 pertaining to improvement in quality of WPP manufactured and the same shall be entirely funded from internal accruals.

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
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

SIL was initially incorporated in 1979 by the name 'Shreyans Paper Mills Limited' by D.K. Oswal and his family. Subsequently, in October 1992, the company's name was changed to SIL. The company is engaged in manufacturing 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 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, 2024, 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'.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	865.88	699.61	135.56
PBILDT	110.64	98.03	15.74
PAT	73.46	87.42	13.97
Overall gearing (times)	0.14	0.09	NA
Interest coverage (times)	20.56	23.05	17.10

A: Audited; UA: Un-Audited; NA: Not Available; 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: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Fixed Deposit		-	-	-	1.46	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March, 2026	5.45	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	55.00	CARE A2+

Annexure-2: Rating history for 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	5.45	CARE A-; Stable	-	1)CARE A-; Stable (24-Nov-23)	1)CARE A-; Stable (25-Nov-22)	1)CARE A-; Stable (07-Jan-22)
2	Fund-based - LT-Cash Credit	LT	25.00	CARE A-; Stable	-	1)CARE A-; Stable (24-Nov-23)	1)CARE A-; Stable (25-Nov-22)	1)CARE A-; Stable (07-Jan-22)
3	Non-fund-based - ST-BG/LC	ST	55.00	CARE A2+	-	1)CARE A2+ (24-Nov-23)	1)CARE A2+ (25-Nov-22)	1)CARE A2+ (07-Jan-22)
4	Fixed Deposit	LT	1.46	CARE A-; Stable	-	1)CARE A-; Stable (24-Nov-23)	1)CARE A-; Stable (25-Nov-22) 2)CARE A-; Stable (22-Jun-22)	1)CARE A- (FD); Stable (07-Jan-22)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of 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 clarification

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About us:

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