CareEdge RATINGS

Shree Rama Newsprint Limited

April 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	102.16	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE D (Single D); Stable outlook assigned**
Long Term / Short Term Bank Facilities	2.00	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	**Revised from CARE D / CARE D (Single D / Single D); Stable outlook assigned**
Total Bank Facilities	**104.16 (Rs. One Hundred Four Crore and Sixteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Shree Rama Newsprint Limited (SRNL) take into account regularization of its debt servicing post change in operational and management control of the company from the Interim Resolution Professional (IRP) to the erstwhile promoters/ management upon settlement of its dispute with one of its operational creditor. Moreover, revision in ratings also take into account demonstrated need-based support from Riddhi Siddhi Gluco Biols Limited (RSGBL), parent of SRNL, which is expected to continue in future as articulated by the management.

As per CARE Ratings Limited's (CARE's) policy on 'Curing Period', CARE may upgrade a default grade rating of an entity prior to the completion of the stipulated curing period of 90 days in certain specific situations. In the case of SRNL, the underlying credit profile of the company was impacted for a very short period only due to procedural reason arising out of the order of The Honourable National Company Law Tribunal (NCLT), Ahmedabad under the Insolvency and Bankruptcy Code (IBC), 2016 for initiation of Corporate Insolvency Resolution Process (CIRP) against the company on an operational creditor's application which was, however, later on withdrawn by the Honourable National Company Law Appellate Tribunal (NCLAT). Change in operational/ management control and minimal possibility of recurrence of such event is one of the exceptions under the 'Curing Period' criteria laid down by CARE for upgrading the credit rating of an entity from default grade.

The ratings continue to remain constrained due to SRNL's loss-incurring operation during FY21 (refers to the period April 01 to March 31) and 9MFY22 due to subdued demand scenario for newsprint paper and writing & printing paper (WPP) in light of Covid-19 pandemic apart from impact of increased input costs leading to weak debt coverage indicators. The ratings further continue to be constrained due to volatile total operating income and profitability, high debt level, susceptibility of its profitability to volatility in raw material prices and its presence in a competitive and cyclical newsprint paper segment which also faces risk of cheaper import. The ratings also take cognizance of company's inability to fully achieve the envisaged benefits of its up-gradation and modernization project of WPP and kraft paper and company's decision to close the paper operations temporarily on account of weak demand and very high input costs resulting into negative contribution.

The ratings of SRNL, however, continue to derive strength from its experienced and resourceful promoters, financial support extended by its parent, and its captive power plant.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Improvement in its PBIDLT margin in the range of 8%-10%
- PBILDT interest coverage ratio more than 1.25 times on a sustained basis

Negative Factors – Factors that could lead to negative rating action/ downgrade:

- Change in RSGBL's management's stance to support the operations of SRNL and/or deterioration in the credit profile of RSGBL
- Further deterioration in the debt coverage indicators of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Continued losses during FY21 and 9MFY22 leading to weak debt coverage indicators

The total operating income (TOI) of SRNL declined by 21% during FY21 over FY20 due to lower production and sales volume. The operations of the company were impacted during Q1FY21 on the back of nation-wide lockdown announced by Government of India to contain Covid-19 pandemic along with temporary closure of paper division from August 08, 2020 to October 02, 2020 due to closure notice issued by Gujarat Pollution Control Board (GPCB). With significant decline in its sales during FY21, SRNL reported operating loss due to lower absorption of fixed cost and in turn reported net loss and cash loss during the year.

TOI of the company grew to around Rs.300 crore in 9MFY22 as compared to Rs.126 crore during 9MFY21 due to some recovery in the demand for paper products which was previously impacted significantly due to nation-wide lockdown and closure of

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

schools. Despite increase in its TOI, the company continued to report operating and net losses, although, the losses have remained marginally lower as compared to 9MFY21. Further, on account of net losses and cash losses, the debt coverage indicators of the company also remained weak with negative interest coverage and total debt to PBILDT.

Significant increase in input costs leading to negative contribution at operating level
SRNL had converted some of its machines towards manufacturing of WPP and Kraft paper to protect and stabilize its operating profitability margin amidst threats of cheap imports of newsprint paper. Despite capex and other efforts, company continued to incur losses under its paper operations due to high input prices mainly waste paper prices and coal rates. Moreover, the inadequate availability of waste-paper also pose challenge to its paper operations. Considering the present very high input costs without corresponding increase in prices of newsprint and WPP, the company has decided to close the paper operations temporarily and announced lay-off of its employees under paper division since December 18, 2021. The resumption of paper operation will depend upon the future demand-supply market dynamics and prices of input cost and finished paper. As the company is incurring negative contribution at operating level under its paper division, the temporary closure of paper division is expected to result in reduction in losses to an extent. Presently also, the operations of its paper division continued to remain shut.

High debt level
Despite scheduled repayment of term loan, total debt of SRNL continued to remain high at Rs.447 crore as on March 31, 2021 due to increase in unsecured loan from RSGBL to fund the losses apart from meeting its working capital requirement. Apart from loans from parent company, RSGBL, the debt of SRNL includes working capital borrowings of Rs.34 crore and various long-term debt of Rs.102 crore as on December 31, 2021. The working capital borrowings is expected to reduce further due to liquidation of inventory and debtors as the company has decided to close its paper operations temporarily. Further, repayments of its various long-term debt are envisaged to be done through infusion of unsecured loans from its parent, RSBGL, as articulated by the management.

Susceptibility of profitability to volatile raw material prices which are presently hurting margins
Major raw material for manufacturing of newsprint and WPP is waste-paper. The company also operates coal based captive power plant. The two major cost components i.e. waste paper and coal constitutes nearly 75-85% of its total cost of sales. The price of coal and waste-paper depends critically on the demand-supply position of the same and is subject to high price volatility. Since there is no long-term arrangement for sourcing the same, SRNL is exposed to the risk of raw material price volatility. SRNL procures imported waste-paper either on advance payment basis or against the document which eliminates the risk of forex rate fluctuation to a certain extent.

Presence in competitive newsprint segment with increase in cheaper imports
Due to non-availability of adequate raw materials, domestic paper manufacturers find it difficult to be globally competitive and thus cheap imports are growing. Moreover, duty on imports of paper and paperboard under ASEAN Free Trade Agreement (FTA) is zero. Further, Government of India during Budget 2020 reduced import duty on newsprint paper from 10% to 5%. Import duty and depreciation of Indian rupee has significant impact on capacity utilization and profitability margins of Indian paper mills as India imports more than 50% of its domestic newsprint paper requirement. Change in parity between prices of waste-paper and newsprint paper and strengthening of Indian rupee reduces the competitiveness and put pressure on profitability of domestic players. SNRL has converted its machines to manufacture WPP and kraft paper as well to protect and stabilize its PBILDT margin amidst threats of cheap imports of newsprint paper; albeit the company could not realize the complete benefits of capex incurred towards such upgradation and modernization.

Significant impact of the pandemic on the paper industry, albeit improving industry outlook
The paper industry has been significantly affected due to the pandemic, especially in the newsprint paper and WPP segment. After disruptions in FY21, several states in India witnessed curfews, partial lockdown, and complete lockdown mainly during April-May 2021 as the second wave of Covid-19 hit the country. However, in the month of June 2021, various states withdrew lockdown restrictions on account of receding covid-19 cases. Thus, more employees are expected to resume work from offices, though in a graded way, which is likely to augur well for paper segments that are used in offices like WPP, maplitho paper among others. Though the demand from education institutions remains impacted, the usage of WPP for education purpose (printed worksheets, text-books and note books) has resumed, although the sessions are held online. The resumption of economic activities in a phased manner is likely to support circulation of newspapers and advertisement spends of businesses which, in turn, is expected to improve the demand for newsprint to an extent. Challenges though will exist as cost-cutting measures by various businesses will restrict advertisement spends. Also, use of digital platforms is a cause of concern for newsprint segment. Nevertheless, demand from packaging segment continues to provide respite to industry players as reopening of economic activities support purchase of various products including essential and non-essential items. Moreover, online buying by consumers will continue to support demand of the packaging segment.

Key Rating Strengths
Change in operational and management control after NCLAT order and minimal possibility of recurrence of such event which led to delay/ default
The Honourable NCLT vide its order dated March 16, 2022 had admitted an application filed by an operational creditor of SRNL under IBC for initiation of CIRP against the company and had also appointed an IRP after suspending the company's Board of Directors. Consequently, the operations of the company were managed by the IRP during which period there was default in

debt servicing by SRNL due to procedural reason. Subsequently, one of suspended director of SRNL appealed to NCLAT against the order passed by NCLT. NCLAT vide its order dated March 23, 2022 had stayed the constitution of Committee of Creditors (COC) subject to depositing entire amount of Rs.2.55 crore claimed by the operational creditor which was deposited by the appellant by demand draft amounting to Rs.2.55 crore drawn in favour of 'The pay and account officer, Ministry of Corporate Affairs, New Delhi' on March 25, 2022 as directed by the NCLAT. Later, the operational creditor and corporate debtor i.e. SRNL settled the matter/dispute between them, hence, NCLAT vide its order dated April 12, 2022, withdrew the order dated March 16, 2022 passed by NCLT. Thereafter, the IRP has handed over the operational/management control of the company to the erstwhile promoters/ management of the SRNL post NCLAT order. Immediately after the change in management control, SRNL repaid the overdue debt to its bank. The underlying credit profile of the company was impacted during the intervening period only due to procedural reason arising out of NCLT order and CARE believes that the possibility of recurrence of such an event which may again lead to delay/ default in future is minimal.

Experienced and resourceful promoters
Mr Ganpatraj Chowdhary, aged 59 years, is the Chairman of SRNL. His son, Mr Siddharth Chowdhary, who possesses more than a decade long experience in managing various businesses, looks after the overall operations of the company. Though SRNL has long track record of operation in paper industry, the promoters have very little experience in paper industry. The Chowdhary family has rich experience in corn and corn product industry through a venture namely RSGBL which was promoted by Mr Ganpatraj along with other family members in 1994 for manufacturing of starch and starch derivatives.
RSGBL has liquid investment of around Rs.175 crore (including investment in PE funds) as on March 31, 2021 which further increased and stood at Rs.191 crore as on December 31, 2021 vis-à-vis its total debt obligation of Rs.62 crore. Apart from the available liquid investment, RSGBL has also extended short term Inter-corporate deposits (ICDs) to various parties which too can be called back on demand to support its liquidity according to the management. RSGBL further derives financial flexibility by virtue of its comfortable standalone leverage marked by overall gearing of 0.06 times as on March 31, 2021.

Demonstrated support from RSGBL, the parent of SRNL
RSGBL, promoter of SRNL, has gradually increased its equity stake in SRNL over the period of last few years. As on December 31, 2021, RSGBL held 74.76% equity stake in SRNL. Apart from equity investment, RSGBL has also extended loans and advances of Rs.296 crore as on March 31, 2021 (increased from Rs.210 crore as on March 31, 2020) which further increased to Rs.343 crore as on December 31, 2021. Infusion of unsecured loans from RSGBL has been used for funding of losses, capex requirement and debt servicing.

Liquidity: Stretched
The liquidity of SRNL remains stretched due to cash loss incurred during FY21 and 9MFY22 resulting into high reliance on support from its parent, RSGBL coupled with high reliance on working capital borrowings. Liquidity of the company is largely supported by timely need-based support in the form of unsecured loans from its parent, RSGBL which is being utilised to support the overall operation and debt servicing of the company. The average fund based working capital limit utilization remained at 78% for the trailing 12 months ended February 2022.

Analytical Approach: CARE has considered the standalone financials of SRNL along with expected need-based support from its parent, RSGBL.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Curing period
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Notching by factoring linkages in Ratings
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in 1994, SRNL was initially promoted by Mr. Vashu Ram Singhani. Subsequently, in the year 2003, West Coast Paper Mills Limited (WCPM) along with its promoters acquired the majority stake in SRNL. However, during FY16, RSGBL acquired the majority stake from WCPM and its promoters.
SRNL is engaged in manufacturing of Newsprint paper, WPP and kraft paper. SRNL has a captive coal-based power plant which has power generation capacity of 23 MW. With its plant located near the industrial belt of Hazira (in the Surat district of Gujarat); SRNL has access to most of the major newspaper publishers in the Northern, Western and Southern states of the country. As on September 30, 2021, SRNL had an aggregate installed capacity of 132,000-1,50,000 Metric Tonnes Per Annum (MTPA) depending on production of newsprint paper, WPP and kraft paper.
Moreover, SRNL has also started production of packaged drinking water bottle of "clear" brand from July 2019 having installed capacity of 32,000 BPH (bottle per hour) funded through unsecured loans from RSGBL. SRNL is outsourcing for 'Clear' brand for 200ml and 500ml of water bottle. SRNL sells water bottle to established and reputed customers of "Clear" brand such as Air India, Marriott etc. The revenue contribution from the packaged water bottle remains low in overall revenue of the company.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	336.60	266.45	300.13
PBILDT	8.80	(14.56)	(9.41)
PAT	(44.64)	(76.97)	(62.15)
Overall gearing (times)	0.97	1.36	NA
Interest coverage (times)	0.32	-ve	-ve

A: Audited; UA: Un-audited; NA: Not 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: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	58.14	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	2.00	CARE BB; Stable / CARE A4
Fund-based - LT-Term Loan	-	-	-	June 2025	44.02	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working Capital Limits	LT	58.14	CARE BB; Stable	1)CARE D (07-Apr-22)	1)CARE BB (CWD) (24-Mar-22)	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+ (CWD) (18-Nov-20)	1)CARE BB+; Stable (21-Feb-20)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ ST*	2.00	CARE BB; Stable / CARE A4	1)CARE D / CARE D (07-Apr-22)	1)CARE BB / CARE A4 (CWD) (24-Mar-22)	1)CARE BB+; Stable / CARE A4+ (02-Mar-21) 2)CARE BB+ / CARE A4+ (CWD) (18-Nov-20)	1)CARE BB+; Stable / CARE A4+ (21-Feb-20)
3	Fund-based - LT-Term Loan	LT	44.02	CARE BB; Stable	1)CARE D (07-Apr-22)	1)CARE BB (CWD) (24-Mar-22)	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+ (CWD) (18-Nov-20)	1)CARE BB+; Stable (21-Feb-20)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (24-Mar-22)	1)CARE BBB- (CE); Stable (02-Mar-21) 2)CARE BBB- (CE) (CWD) (18-Nov-20)	1)CARE BBB (CE); Negative (21-Feb-20)

* Long Term / Short Term

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 4: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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