

Ruchira Papers Limited

June 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	86.53	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	8.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Short Term Bank Facilities	7.00	CARE A2+ (A Two Plus)	Assigned
Total Bank Facilities	101.53 (₹ One Hundred One Crore and Fifty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Ruchira Papers Limited (RPL) derive strength from experienced promoters, improvement in scale of operations and profitability margins during FY22 (refers to the period from April 01 to March 31) driven by healthy sales realizations of both kraft paper and writing and printing paper (WPP), comfortable financial risk profile marked by low overall gearing, and established market presence through a wide distribution network. However, the ratings are constrained by working capital intensive nature of operations, susceptibility of margins to volatility in raw material prices and foreign exchange fluctuation along with highly competitive and cyclical nature of paper industry.

Rating sensitivities

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

- Increase in scale of operations with PBILDT margin above 13.50% on a sustained basis.

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

- Deterioration in scale of operations with the PBILDT margin below 8% on a sustained basis.
- Any new capex and funding mix for the same and increased reliance on working capital borrowings resulting in deterioration in overall gearing ratio to above 0.60x in the medium term.

Detailed description of the key rating drivers

Key rating strengths

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.

Improvement in scale of operations and profitability margins during FY22: During FY22, the total operating income of the company grew by 47.50% to Rs.612.86 crore on account of higher sales volume coupled with improved net sales realization (NSR) for both kraft paper and WPP owing to uptick in demand of paper products and rise in prices of kraft paper and WPP in the industry. Further, the PBILDT margin of the company improved to 10.39% during FY22 (PY: 5.90%) due to increase in scale of operations leading to decrease in fixed costs such as employee salaries and wages as a percentage of total operating income in FY22. Consequently, the PAT margin of the company improved to 5.40% in FY22 (PY: 1.20%).

Comfortable financial risk profile: The financial risk profile of the company remains comfortable with overall gearing of 0.21x as on March 31, 2022 (PY: 0.28x). The improvement in gearing is mainly on account of scheduled repayment of term loan coupled with accretion of profits to net-worth. Debt coverage indicators of the company also improved and stood comfortable with PBILDT interest coverage of 10.45x (PY: 4.22x) and total debt/GCA of 1.34x (PY: 4.00x) during FY22.

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

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 WPP. Moreover, no customer of the company contributed more than 10% of the company's total revenue in FY22.

Key rating weaknesses

Working capital intensive nature of operations: The operating cycle of the company was moderate at 79 days (PY: 107 days) in FY22 primarily on account of higher inventory holding days of 55 days (PY: 70 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 50 days-60 days to its customers. The average creditor period of the company remained low at 15 days in FY22 (PY: 18 days).

Susceptibility of margins to volatility in raw material prices and foreign exchange risk: The major raw materials used for RPL's products are wheat straw, bagasse, wastepaper, Sarkanda, and wood pulp. As these products are a commodity, constituting ~50%-60% of the total cost of sales for the period FY19-FY22, their prices remain volatile, thus exposing RPL to volatility in the prices of raw materials which has a bearing on its profitability margins. RPL sources its raw material from domestic and foreign suppliers wherein ~6% of the total raw material requirement is met through imports thus exposing company to foreign exchange risk. Although the company has not reported any gain or loss due to foreign currency fluctuation for the period FY19-FY22, RPL does not have any formal foreign currency hedging strategy in place and it may impact the company's profitability margins.

Stringent pollution control norms: Paper industry is one of the most polluting industries, as identified and categorized by Central Pollution control Board (CPCB) as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting number of issues in relation to wastewater treatment, discharge and sludge disposal. RPL has an adequate Effluent treatment Plant (ETP) in place with adequate capacity to treat the waste water produced by the company.

Cyclical nature of industry and high competition: 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: Paper consumption in India, which is approximately 15 million tons per annum, is expected to touch 23.5 million tons per annum by 2025 and predicted to increase by 7.6 per cent per year. The per capita consumption of paper in India, however, is still very low at 14 kg per annum, as compared with the global average of 57 kg and over 200 kg in developed countries. The domestic market size is approximately INR 80,000 crores while exports of paper were valued at over INR 6,800 crores in FY20. The writing and printing paper segment was one of the worst-hit due to COVID-19 pandemic outbreak leading to closure of educational establishments, coaching centres, judicial establishments, corporate offices, and adoption of the new culture of work from home. The sector is now witnessing some signs of revival with lockdowns being lifted by states in a phased manner, resulting in gradual opening of educational institutes and offices. The Government's huge spending on healthcare and infrastructure sectors, RBI's liquidity measures and the massive vaccination drive helped economic recovery in the second half of FY 2020-21. Also, online reading is still at a nascent stage in the country, with e-book penetration estimated at only 3-4%. The demand for W&PP paper in India is expected to clock 6%-7% CAGR (Compounded annual growth rate) owing to rising literacy rates, rise in enrolment rates and the government's higher spending on educational programs. The paperboard in India are expected to grow at a CAGR of 5.3% during 2021-2026 owing to the higher growth of food and beverages, cosmetics and other industries in India. The Indian Packaging Industry is expected to grow at a CAGR of 18% during 2021-26. Covid-19 may have derailed this growth considerably; however, certain manufacturing sectors, such as pharmaceuticals, packaged food and beverages, functional food and hygienic products among the FMCG, have been less affected by the crisis, and have rather seen a sizeable growth both in demand and in production, raising the demand of packaging. Moreover, different government initiatives to reduce plastic wastes are also influencing the growth of this market.

Liquidity: Adequate – The liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.50.51 crore in FY23 against scheduled repayment of Rs.12.35 crore in FY23. Further, the average utilization of working capital borrowings stood ~80% for the trailing 12 months ended April, 2022. The current ratio of the company remained comfortable at 1.76x (PY: 1.56x) as on March 31, 2022. The company is planning to incur capex to the tune of ~Rs.18.00 crore in FY23 and FY24 pertaining to modernization of machinery and shall be funded through equity infusion of ~Rs.12.00 crore and remaining through internal accruals. Further, the company has no plans for major capex in the medium term.

Analytical approach: Standalone

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](#)

About the company

Ruchira Papers Limited was incorporated as a public limited company in 1980 by Mr. Umesh Chander Garg (Managing Director), Mr. Jatinder Singh (co-chairman), and Mr. Subash Chander Garg (Chairman). The company is into manufacturing of kraft paper and writing and printing paper with a total manufacturing capacity of 90,000 MTPA of kraft paper and 54,000 MTPA of writing and printing paper as on March 31, 2022, at its manufacturing plant located in Kala Amb, Himachal Pradesh

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	415.42	612.86
PBILDT	24.53	63.65
PAT	4.99	33.09
Overall gearing (times)	0.28	0.21
Interest coverage (times)	4.22	10.45

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	70.00	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	8.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan		-	-	March, 2024	16.53	CARE A-; Stable
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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (19-Jul-19)
2	Non-fund-based - ST-ILC/FLC	ST	-	-	-	-	-	1)Withdrawn (19-Jul-19)
3	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)Withdrawn (19-Jul-19)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (19-Jul-19)
5	Fund-based - LT-Working Capital Limits	LT	70.00	CARE A-; Stable				
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	8.00	CARE A-; Stable / CARE A2+				
7	Fund-based - LT-Term Loan	LT	16.53	CARE A-; Stable				
8	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A2+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable**Annexure-4: 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
4	Non-fund-based - ST-ILC/FLC	Simple

Annexure-5: 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 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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