

Shree Rama Newsprint Limited

March 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	102.16 (Reduced from 150.10)	CARE BB (CWD) (Double B) (Under Credit watch with Developing Implications)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable); Placed on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	2.00 (Reduced from 6.00)	CARE BB / CARE A4 (CWD) (Double B / A Four) (Under Credit watch with Developing Implications)	Revised from CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable / A Four Plus); Placed on Credit watch with Developing Implications
Long Term Bank Facilities @	-	-	Withdrawn
Total Bank Facilities	104.16 (Rs. One Hundred Four Crore and Sixteen Lakhs Only)		

Details of instruments/facilities in Annexure-1

@ This bank facility was backed by the unconditional and irrevocable corporate guarantee of Riddhi Siddhi Gluco Biols Limited (RSGBL). CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to the said bank facility of Shree Rama Newsprint Limited (SRNL) with immediate effect, as the company has repaid the afore-mentioned term loan in full and there is no amount outstanding under the loan as on date.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of SRNL is on account of continued losses incurred by it 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 revision in ratings also factors company's inability to fully achieve the envisaged benefits of its up-gradation and modernization project of WPP and Kraft paper.

Furthermore, CARE Ratings has placed the ratings of SRNL under 'Credit Watch with Developing Implications'. The said action takes cognizance of admission of an operational creditor's application for initiation of Corporate Insolvency Resolution Process (CIRP) against SRNL and appointment of Insolvency Resolution Professional (IRP) by the Honourable National Company Law Tribunal (NCLT), Ahmedabad. The CIRP application was filed by Agarwal Fuel Corporation Private Limited against SRNL for an operational debt of around Rs.2.55 crore. CARE Ratings will closely monitor further developments in this regard to assess its implications on the credit profile of SRNL, and resolve the credit watch once more clarity emerges on this development.

The ratings 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 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, RSGBL 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%
- PBIDLT 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

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

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 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.

Further, as per the recent order of NCLT under CIRP, SRNL is now required to take prior approval of IRP for any future payments to be made from its bank accounts which shall also impact its operations to an extent. However, as informed by the company management, they are contemplating various options in this regard. The proceedings of CIRP would be key monitorable from credit perspective.

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 RSGlobal to fund the losses apart from meeting its working capital requirement. Apart from loans from parent company, RSGlobal, 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

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 RSGlobal which was promoted by Mr Ganpatraj along with other family members in 1994 for manufacturing of starch and starch derivatives.

RSGlobal 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, 2020 vis-à-vis its total debt obligation of Rs.62 crore. Apart from the available liquid investment, RSGlobal 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. RSGlobal 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 RSGlobal, the parent of SRNL

RSGlobal, promoter of SRNL, has gradually increased its equity stake in SRNL over the period of last few years. As on December 31, 2021, RSGlobal held 74.76% equity stake in SRNL. Apart from equity investment, RSGlobal 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 RSGlobal 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, RSGlobal 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, RSGlobal 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, RSGlobal.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[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, RSGlobal 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 RSGlobal. 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 (CWD)
Non-fund-based - LT/ST-Bank Guarantee	-	-	-	-	2.00	CARE BB / CARE A4 (CWD)
Fund-based - LT-Term Loan	-	-	-	June 2025	44.02	CARE BB (CWD)
Fund-based - LT-Term Loan	-	-	-	-	-	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT- Working Capital Limits	LT	58.14	CARE BB (CWD)	-	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+ (CWD) (18-Nov-20)	1)CARE BB+; Stable (21-Feb-20)	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ ST*	2.00	CARE BB/ CARE A4 (CWD)	-	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)	1)CARE A4+ (27-Feb-19) 2)CARE A4 (08-Oct-18)
3	Fund-based - LT- Term Loan	LT	44.02	CARE BB (CWD)	-	1)CARE BB+; Stable (02-Mar-21) 2)CARE BB+ (CWD) (18-Nov-20)	1)CARE BB+; Stable (21-Feb-20)	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)
4	Fund-based - LT- Term Loan	LT	-	Withdrawn	-	1)CARE BBB- (CE); Stable (02-Mar-21) 2)CARE BBB- (CE) (CWD) (18-Nov-20)	1)CARE BBB (CE); Negative (21-Feb-20)	1)CARE BBB (SO); Stable (27-Feb-19) 2)CARE BBB (SO); Stable (08-Oct-18)

* 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 CompanyTo 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:

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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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