

Shreyans Industries Limited

November 25, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.42 (Reduced from 46.39)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	44.00	CARE A2+ (A Two Plus)	Reaffirmed
Total Bank Facilities	84.42 (₹ Eighty-Four Crore and Forty-Two Lakhs Only)		
Fixed Deposit	5.94	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Medium-Term Instruments	5.94 (₹ Five Crore and Ninety-Four Lakhs Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instrument of Shreyans Industries Limited (SIL), continue to derive strength from the experienced promoters, long track record of operations and comfortable liquidity position of the company. The ratings further derive strength from the improved operational performance during FY22 (refers to the period from April 01 to March 31) and H1FY23 (refers to the period from April 01 to September 30) supported by better demand for Writing and Printing Paper (WPP) leading to improved realizations, comfortable solvency position marked by low overall gearing, well-established distribution network, diversified product profile, and proximity of the manufacturing plant to raw material sources. The ratings, however, remain constrained by competitive nature of the industry and susceptibility of profitability margins to volatility in raw material prices & foreign exchange fluctuations.

Rating sensitivities

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

- Improvement in scale of operations with PBILDT margin above 15% on a sustained basis.

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

- Any major debt funded capex or high reliance on working capital borrowings resulting in overall gearing above 0.70x.
- Any significant decline in operations and profitability which may adversely impact the liquidity of the company with decrease in unencumbered mutual fund investments.

Detailed description of the key rating drivers

Key rating strengths

Improvement in scale of operations in FY22 and H1FY23: With the easing of restrictions and gradual opening-up of economy, the total operating income of SIL grew by ~59% to Rs.584.92 crore in FY22 (PY: Rs.366.83 crore). However, the profitability margins of the company continued to remain low as reflected by PBILDT margin of 1.89% in FY22 (PY: 1.60%). Consequently, the PAT margin of the company remained low at 1.70% in FY22 (PY: 2.39%). During H1FY23, the total operating income of the company grew substantially by ~60% to Rs.408.52 crore (PY: Rs.254.64 crore) on the back of increase in realization price of writing and printing paper due to improved demand scenario. During H1FY23, the PBILDT margin of the company improved substantially to 11.06% (PY: 4.74%) owing to decrease in fixed expenses as a percentage of total operating income due to substantial increase in scale of operations. Consequently, the PAT margin of the company improved to 7.14% (PY: 3.82%) in H1FY23. Going forward, CARE expects the PBILDT margin to remain in the range of 10%-11% over the medium term.

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

Comfortable Solvency position: The solvency position remained comfortable with overall gearing ratio of 0.29x as on March 31, 2022 (PY: 0.21x). The debt coverage indicators of the company remained moderate as reflected by PBILDT interest coverage of 1.84x (PY: 1.08x) and total debt/GCA of 6.14x (PY: 20.81x) in FY22.

Experienced promoters with long track record of operations: SIL has been engaged in the manufacturing of writing and printing paper (WPP) business for more than three and a half decades now which has led to well-established relationships with the suppliers as well as the customers. Mr Rajneesh Oswal, Chairman, has an overall experience of more than two and a half decades. Mr. Vishal Oswal (brother of Mr. Rajneesh Oswal), Managing Director, has an overall experience of more than two decades. Other directors of the company include Mr Kunal Oswal having an overall experience of around one and a half decade. The promoters have extended financial support in the past to fund various business requirements of the company.

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

Proximity of the manufacturing plants to raw material sources: Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw, sarkanda, rice husk, etc. The plant is located in an established agricultural belt, viz, Punjab, leading to easy and ample availability of raw materials.

Key rating weaknesses

Susceptibility of margins to foreign exchange fluctuations: SIL imports wood pulp from USA, Sweden, Canada etc. Imported raw materials formed ~16% of the total raw material cost in FY22 (amounting to Rs.49.29 crore; PY: Rs.27.23 crore). The proceeds from exports in foreign currency, however, remained at Rs.28.20 crore in FY22 (PY: Rs.21.18 crore). This provides a minimal natural hedge to a certain extent. Furthermore, 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 FY22, the company reported a gain of Rs.0.48 crore on foreign currency transaction (PY: gain of Rs.0.40 crore).

Highly competitive industry along with susceptibility of margins to volatility in prices of raw material: The paper industry is highly fragmented in nature with stiff competition from a 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. 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 operating profitability of the company remains highly susceptible to any volatility in raw material prices.

Industry Prospects: Paper consumption in India, which is approximately 15 million tons per annum, is expected to touch 23.5 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 FY 2019-20. 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 owing to rising literacy rates, rise in enrolment rates and the government's higher spending on educational programs.

Liquidity: Adequate – Liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.83.10 crore in FY23 against scheduled term loan repayments to the tune of Rs.9.90 crore in FY23. Further, the average

utilization of working capital borrowings stood 38.28% for the trailing 12 months ended August 31, 2022. Further, the company has liquid mutual fund investments (quoted at market value) to the tune of Rs.86.97 crore as on June 30, 2022, out of which Rs.49.30 crore were unencumbered investments.

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

Shreyans Industries Limited (SIL) was initially incorporated in 1979 by the name 'Shreyans Paper Mills Limited' by Mr D.K. Oswal and his family members. Subsequently, in October 1992, the company's name was changed to SIL. The company is engaged in the manufacturing of 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 the year 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, 2022, 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)	FY21 (A)	FY22 (A)	H1FY23 (P)
Total operating income	366.83	584.92	408.52
PBILDT	5.88	11.08	45.17
PAT	8.78	9.96	29.17
Overall gearing (times)	0.31	0.29	0.25
Interest coverage (times)	1.08	1.84	15.63

A: Audited, P: Provisional

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	5.94	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	21.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March, 2026	19.42	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	44.00	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	19.42	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Stable (16-Feb-21)	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)
2	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-22)	1)CARE A-; Stable (16-Feb-21)	1)CARE A-; Stable (21-Jan-20) 2)CARE A-; Stable (02-Jan-20)
3	Non-fund-based - ST-BG/LC	ST	44.00	CARE A2+	-	1)CARE A2+ (07-Jan-22)	1)CARE A2+ (16-Feb-21)	1)CARE A2+ (21-Jan-20) 2)CARE A2+ (02-Jan-20)
4	Fixed Deposit	LT	5.94	CARE A-; Stable	1)CARE A-; Stable (22-Jun-22)	1)CARE A-(FD); Stable (07-Jan-22)	1)CARE A-(FD); Stable (16-Feb-21)	1)CARE A-(FD); Stable (21-Jan-20)

*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	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: Bank lender details for this companyTo 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.

Contact us

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Sachin Mathur
Phone: 9810865435
E-mail: sachin.mathur@careedge.in

Relationship contact

Name: Swati Aggarwal
Phone: +91-11-4533 3200
E-mail: swati.aggarwal@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**