Ruchira Papers Limited

October 23, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long-term Bank Facilities	97.00 (enhanced from 71.16)	**CARE BBB+ (Triple B Plus) (Under Credit Watch with Developing Implications)**	Removed from Credit Watch with Negative Implications and placed on Credit Watch with Developing Implications
Short-term Bank Facilities	7.00 (enhanced from 6.25)	**CARE A3+ (A Three Plus) (Under Credit Watch with Developing Implications)**	Removed from Credit Watch with Negative Implications and placed on Credit Watch with Developing Implications
Total Facilities	**104.00 (Rupees One hundred and four crores only)**		

Details of instruments/facilities in Annexure-1
**Reclassified from long term/short term bank facilities*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ruchira Papers Limited (RPL) continue to remain on Credit watch on account of its announcement of its proposed capex. CARE had earlier placed the ratings under 'Credit Watch with Negative Implications' following the announcement by RPL to set-up greenfield project for Writing & Printing Paper (WPP) in Punjab, at a tentative total project cost of around Rs.800 cr., proposed to be funded through a combination of term loans (Rs.450 cr., estimated at that time), internal accruals, promoter funding and Qualified Institutional Placement (QIP). The quantum of the expected debt to be availed for the project was likely to adversely impact the credit profile of the company. However, the company has now communicated that it will take a call on the the size of the proposed greenfield project, its funding mix and implementation post FY19, while currently, it is in the process of aggregating land for the project through its internal accruals and fund infusion by the promoters. The ratings have therefore been placed on 'Credit Watch with Developing Implications' owing to the lack of clarity on the timing, size and funding mix of the project and therefore its likely impact on the credit risk profile of RPL. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities of RPL continue to derive strength from the experienced promoters, long operational track record of the company, healthy profitability margins and comfortable solvency position. The ratings further derive strength from the diversified product profile, proximity of the manufacturing plant to raw material sources and captive power generation capacity. The ratings are, however, constrained by the working capital intensive nature of operations, susceptibility of profitability margins to fluctuations in the raw material prices and fragmented nature of the industry.

Going forward, the ability of the company to profitably scale-up its operations and manage the working capital requirements efficiently will remain the key rating sensitivities. Further, the impact of the proposed capex, as and when it happens, on the credit risk profile of the company will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: RPL has been engaged in the paper industry for more than three and a half decades now. The promoters of RPL have an industry experience of over three decades each. The company is managed by a well-qualified and an experienced management team, with Mr Umesh Chander Garg (Managing Director), Mr Jatinder Singh (Chairman) and Mr Subhash Chander Garg (Co-Chairman), handling the day-to-day affairs of the company. They are further supported by key executives who also have rich experience in the industry.

Healthy profitability margins: RPL undertook a debottlenecking-cum-upgradation capex during Q4FY18 (completed in April-2018) which led to a complete shutdown of the kraft paper unit for ~25 days and a partially shut down of the WPP unit for ~8 days. The WPP unit was also shut down for ~18 days in Q2FY18 for overhauling of the power generation system. Despite loss in production, the operating income of the company grew by ~8% in FY18 primarily owing to increase in income derived from the kraft paper segment. This in turn was attributable to the higher demand and improved

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

realizations. The PBILDT and PAT margins of the company remained healthy and improved from 15.54% and 7.77% respectively, in FY17 to 17.26% and 8.42% respectively, in FY18 owing to higher economies of scale, lower raw material costs and higher operational efficiency as a result of the modernization and debottlenecking capex undertaken in FY17 and Q2FY18. The PAT margins also improved on the back of better PBILDT at absolute level and lower interest expenses. The total income of RPL declined by ~ 7% in Q1FY19 (unaudited) as compared to the corresponding period last year on account of fall in prices of both Kraft paper and WPP. This, coupled with the rising prices of manufacturing process inputs like PET coke and coal led to a decline in the PBILDT and PAT margins from 19.11% and 9.93% respectively, in Q1FY18 to 17.88% and 8.76% respectively, in Q1FY19. The same, however, continued to remain healthy.

***Comfortable overall solvency position*:** Despite the availment of additional term loans for funding the capex undertaken during the year and additional unsecured loans of Rs.2.58 Cr. infused by the promoters and related parties, the capital structure of the company remained comfortable at 0.46x, as on March 31, 2018. This was primarily on account of accretion of profits to the networth and scheduled term loan repayments. The total debt to GCA remained comfortable at 1.67x (PY: 1.58x), as on March 31, 2018 while the interest coverage ratio improved from 8.20x in FY17 to 10.10x in FY18 on account of better profitability.

Diversified product profile: RPL’s product profile includes a wide range of kraft paper, which finds application in the packaging industry, and special quality kraft papers, which are specifically used for special packaging in textile and bulk drug industry. Furthermore, the company also manufactures a wide range of WPP paper which is mainly used for stationery, copier paper, diaries, labels, etc. In Q4FY18 and April-2018, the company undertook modernisation of the kraft paper and the writing & printing paper unit which has enabled it to produce higher value added qualities of kraft paper as well as WPP.

Locational advantage: RPL’s manufacturing unit is located in Himachal Pradesh, near the sugar manufacturing and agricultural belt of Haryana and Punjab. This leads to ample and easy availability of the primary raw materials for the company such as Bagasse, Wheat Straw and Sarkanda.

Captive power generation capability: RPL has implemented various cost saving measures to support its profitability margins. The company has a captive power generation plant with a capacity of 8.1 MW (Megawatt) to source its power requirements for the WPP unit.

Key Rating Weaknesses

Working capital intensive operations: The operating cycle of the company elongated to ~78 days, as on March 31, 2018 from ~65 days, as on March 31, 2017, on account of elongation in the inventory holding period. The average monthly utilization of cash credit limit remained at a moderate level of ~74% for the twelve months ended August-2018 with the maximum utilization of up to ~96% during this period.

Susceptibility of margins to raw material price fluctuations: The primary raw materials of RPL are agro-based, prices of which are highly fluctuating in nature due to their seasonal availability. Therefore, the profitability margins of the company remain highly susceptible to any volatility in the raw material prices.

Highly competitive & fragmented nature of industry: RPL operates in a fragmented paper industry where presence of several organized and unorganized players leads to intense pricing pressures and a high level of competition.

Analytical approach– Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
CARE’s methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria for placing on credit watch

About the Company

RPL is engaged in the manufacturing of WPP and kraft paper. The company is promoted by Mr Subhash Chander Garg, Mr Jatinder Singh and Mr Umesh Chander Garg. RPL has three manufacturing machines - two for kraft paper and one for WPP. The plant is located at Kala Amb, Himachal Pradesh with total installed capacity of 52800 metric tonnes per annum (MTPA) for kraft paper and 33000 MTPA for WPP, as on March 31, 2018. The company is currently in the process of land aggregation for the proposed greenfield project. It has acquired 109 acres of land and invested an amount of Rs.26.50 Cr through its own resources, as on October 11, 2018. Further, it is in the process of purchasing balance land requirement of 78 acres, the requirement for which is also proposed to be met from its own resources. However, the company has communicated that it will take a call on the implementation, size and funding mix of the greenfield capex, after FY19.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	418.11	451.35
PBILDT	64.96	77.93
PAT	32.50	38.02
Overall gearing (times)	0.46	0.46
Interest coverage (times)	8.20	10.10

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Sudeep Sanwal
Tel: 0172-4904002
Cell: +91 9958043187
Email: sudeep.sanwal@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December-2021	37.25	CARE BBB+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-ILC/FLC	-	-	-	7.00	CARE A3+ (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	57.00	CARE BBB+ (Under Credit watch with Developing Implications)
Non-fund-based - LT-Bank Guarantees	-	-	-	2.75	CARE BBB+ (Under Credit watch with Developing Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	37.25	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Negative Implications) (28-Feb-18)	1)CARE BBB+; Stable (09-Mar-17) 2)CARE BBB (27-Jun-16)	1)CARE BBB- (20-Jul-15)
2.	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A3+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications) (28-Feb-18)	1)CARE BBB+; Stable / CARE A3+ (09-Mar-17) 2)CARE BBB / CARE A3+ (27-Jun-16)	1)CARE BBB- / CARE A3 (20-Jul-15)
3.	Fund-based - LT-Working Capital Limits	LT	57.00	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (Under Credit watch with Negative Implications) (28-Feb-18)	1)CARE BBB+; Stable (09-Mar-17) 2)CARE BBB (27-Jun-16)	1)CARE BBB- (20-Jul-15)
4.	Non-fund-based - LT-Bank Guarantees	LT	2.75	CARE BBB+ (Under Credit watch with Developing Implications)	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691