Ruchira Papers Limited

February 28, 2018

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	71.16	**CARE BBB+ (Triple B Plus) (Under Credit Watch with Negative Implications)**	Placed on Credit Watch with Negative Implications
Long-term/Short-term Bank Facilities	6.25	**CARE BBB+/ CARE A3+ (Triple B Plus/ A Three Plus) (Under Credit Watch with Negative Implications)**	Placed on Credit Watch with Negative Implications
Total Facilities	**77.41 (Rupees Seventy Seven crore and Forty One lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

CARE has placed the ratings assigned to the bank facilities of Ruchira Papers Limited (RPL) on Credit Watch with Negative Implications following the recent 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. As per the initial estimates, the plant capacity is proposed to be 1,00,000 MTPA and the total project cost is proposed to be funded through a combination of term loans, internal accruals, promoter funding and Qualified Institutional Placement (QIP). The quantum of the expected debt to be availed for the project is likely to adversely impact the credit profile of the company.

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 Ruchira Papers Limited (RPL) continue to derive strength from the experienced promoters and the improved financial performance in FY17 & 9MFY18 (UA) characterized by increasing income and improvement in the profitability margins & capital structure of the company. The ratings further derive strength from the long operational track record, 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 on the credit profile of the company will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance in FY17 and 9MFY18 (Prov.): The operating income of the company increased by ~15% in FY17 on the back of increased demand and sales realizations. The PBILDT and PAT margins improved in FY17 on the back of lower raw material cost incurred, lower operational expenses due to improved efficiency and economies of scale owing to growing scale of operations. Inspite of additional term loans availed for funding de-bottlenecking project, the capital structure of the company remained comfortable on account of accretion of profits to the networth. The debt coverage indicators also remained comfortable improving from previous year's levels on account of better profitability during FY17. In 9MFY18 (UA), the total income achieved by the company grew by ~12% over the corresponding period last year on account of higher quantity sold and better sales realizations. The PBILDT and PAT margins also improved to 18.35% and 9.29% respectively (15.60% and 7.36% respectively compared to the same period last year) on the back of

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

benefits accrued from the debottlenecking project undertaken in the past which led to better efficiencies combined with economies of scale. The interest coverage ratio also remained comfortable at 11.87x during 9MFY18 (compared to 7.40 in the same period last year).

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

Diversified product profile: RPL has a diversified product profile as it manufactures a wide range of high quality 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, playing cards, brochures, magazines and copier paper.

Locational advantage: RPL's manufacturing unit is located in Himachal Pradesh (H.P.), near the sugar manufacturing and agricultural belt of Haryana and Punjab. As a result, the availability of major raw materials such as bagasse, wheat Straw and sarkanda is in abundance and easily accessible.

Captive power generation capability: KPL 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 to source its power requirements for the WPP unit.

Key Rating Weaknesses

Working capital intensive operations: The operating cycle of the company stood at ~65 days as on March 31, 2017 (PY: ~62 days). Though the average utilization of the working capital limits remained moderate the maximum utilization went up to ~94% in the last twelve months ended Jan-2018.

Susceptibility of margins to raw material price fluctuations: The primary raw materials of RPL are agro-based, prices of which are highly volatile in nature due to seasonal availability. Therefore, the operating profitability of the company remains 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.

Proposed capex: The company has proposed to set-up greenfield project at Chamkaur Sahib, Rupnagar District, in the state of Punjab, at a total project cost of Rs.800 cr. Though the land aggregation process for the project is ongoing where the company has already purchased 104 acres of land area (funded through own sources), the exact funding mix is yet to be decided. However, as per the initial estimates, the company plans to avail a term loan of Rs.450 cr, while the remaining project cost is proposed to be funded through internal accrual, promoter funding and QIP. CARE will closely follow the developments in this regard and will keep a close watch on the proposed funding-mix of the project and its consequent impact on the credit profile of the company.

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, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	363.73	418.38
PBILDT	48.63	64.28
PAT	19.47	32.05
Overall gearing (times)	0.61	0.46
Interest coverage (times)	6.57	8.12

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.*

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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	-	-	September-2019	32.36	CARE BBB+ (Under Credit watch with Negative Implications)
Non-fund-based-LT/ST	-	-	-	6.25	CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications)
Fund-based - LT-Working Capital Limits	-	-	-	38.80	CARE BBB+ (Under Credit watch with Negative 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	32.36	CARE BBB+ (Under Credit watch with Negative Implications)	-	1)CARE BBB+; Stable (09-Mar-17) 2)CARE BBB (27-Jun-16)	1)CARE BBB- (20-Jul-15)	1)CARE BBB- (08-Aug-14)
2.	Non-fund-based-LT/ST	LT/ST	6.25	CARE BBB+ / CARE A3+ (Under Credit watch with Negative Implications)	-	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)	1)CARE BBB- / CARE A3 (08-Aug-14)
3.	Fund-based - LT-Working Capital Limits	LT	38.80	CARE BBB+ (Under Credit watch with Negative Implications)	-	1)CARE BBB+; Stable (09-Mar-17) 2)CARE BBB (27-Jun-16)	1)CARE BBB- (20-Jul-15)	1)CARE BBB- (08-Aug-14)

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