

## Seshasayee Paper & Boards Limited

January 23, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	415.26	CARE A+; Stable  (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	208.12	CARE A1+  (A One Plus)	Revised from CARE A1;  (A One)
<b>Total Facilities</b>	<b>623.38</b>  <b>(Rs. Six hundred twenty three crore and thirty eight lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale

The revision in the short term rating assigned to the bank facilities of Seshasayee Paper & Boards Ltd (SPBL) is on account of improvement in the short term liquidity metrics. The rating continues to favourably factor in its established track record in paper industry and strong distribution network, well established position in South India market, integrated manufacturing facility at Erode, experienced and professional management, operational synergies between Erode and Tirunelveli units. Further the ratings also derive comfort from operating efficiency of its integrated operations as reflected in improved performance in Tirunelveli unit in H1FY17 (refer to period April 01 to September 30).

The rating strengths are however tempered by concerns over volatility in key raw materials, debt funded ongoing capacity & development plan in competitive industry.

Going forward; the ability of SPBL to stabilize the operations of ongoing debt funded Mill Development Plan (MDP) and Mill Expansion Plan (MEP) and continue to maintain the profitability of Tirunelveli unit remains the key rating sensitivities.

### Detailed description of the key rating drivers

SPBL has two paper units – Erode and Tirunelveli and was incorporated in 1960. It has strong distribution network in South India accounting for 65-70% of sales. The company has a strong board and is well managed by good professional management. During FY16 (refer to period April 01 to March 31), the operations of the company improved on y-o-y basis with cost reduction measures and demand growth. Further, the loss making Tirunelveli unit performed well during H1FY17, on account of improved demand scenario, stabilization of raw material prices and improved operating efficiencies. With synergies derived from both the units by supply of pulp and power, the same led to improvement in the profitability margins. Improved profitability led to higher cash accruals; thereby resulting in improvement in the overall debt protection and short term liquidity metrics. Working capital facility utilization was lower at about 51% for nine months ending September 2016 and operating cycle was 2 days. The company is undergoing capex plan for mill development and mill expansion at both units to tune of Rs.200 cr, of which 45% is executed and balance to be completed by FY18. Post completion of the current project, company has plans for capex of Rs.175 cr at Erode unit. Stabilization of the ongoing capex and sustained improvement in margins is critical. Paper players also face volatility in input prices and competition disallows complete pass through of finish good prices, thus limiting margin growth.

**Analytical approach:** Standalone

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Applicable Criteria**

[CARE's methodology for manufacturing companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

**About the Company**

Incorporated in 1960 and founded by Shri S. Viswanathan, Seshasayee Paper & Boards Limited (SPBL) belongs to 'Esvin Group'. It operates an integrated pulp and paper mill located at Pallipalayam, Erode and paper manufacturing mill at Tirunelveli. It commenced with a capacity of 20,000 TPA (tons per annum) at Erode (during 1962) and over the years the capacity has been expanded in stages to 120,000 TPA. During February 2011, SPBL acquired Tirunelveli (Tamil Nadu) based defunct paper mill Subburaj Papers Limited (SPL) having a paper manufacturing capacity of 60,000 TPA (based on waste paper pulp). SPL was amalgamated with SPBL w.e.f April 1, 2012 after the high court order & the Tirunelveli unit is operating since then. SPBL manufactures a variety of papers such as printing and writing (P&W) grade papers (WPP), packing and wrapping grade papers, specialty grade papers, etc.

Erode manufacturing unit is based on hardwoods and utilizes 'Eucalyptus' and 'Casuarina' trees for wood pulp besides bagasse.

During FY16 (refers to the period April 01 to March 31), SPBL posted total operating income of Rs.1034.49 crore (vis-à-vis Rs.1019.04 crore in FY15) and PAT of Rs.35.58 crore (vis-à-vis Rs.14.94 crore in FY15). Further the company in H1FY17; posted total operating income of Rs.544.38 crore (vis-à-vis Rs.468.52 crore in H1FY16) and PAT of Rs.54.81 crore (vis-à-vis Rs.18.68 crore in H1FY16).

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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 – Term Loan	NA	NA	July 2019	210.26	CARE A+ (Single A Plus); Stable
Fund Based – Cash Credit	NA	NA	NA	205.00	CARE A+ (Single A Plus); Stable
Fund Based – Term Loan	NA	NA	NA	3.12	CARE A1+ (A One Plus)
Non Fund Based – Letter of Credit/ Bank guarantee	NA	NA	NA	205.00	CARE A1+ (A One Plus)

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings (January 16, 2017)			Chronology of Rating history for past three years		
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based – Term Loan	LT	210.26	CARE A+; Stable	CARE A+	CARE A+	CARE A+
2.	Fund Based – Cash Credit	LT	205.00	CARE A+; Stable	CARE A+	CARE A+	CARE A+
3.	Fund Based – Term Loan	ST	3.12	CARE A1+	CARE A1	CARE A1	CARE A1
4.	Non Fund Based – Letter of Credit/ Bank guarantee	ST	205.00	CARE A1+	CARE A1	CARE A1	CARE A1

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