

Shree Rama Newsprint Limited

February 06, 2017

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
1	Long-term Bank Facilities #	23.00 (reduced from Rs.160.00 crore)	CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]	Suspension Revoked; removed from Credit Watch
2	Long-term Bank Facilities	176.975 (enhanced from Rs.60.00 crore)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Suspension Revoked; Revised from CARE D (Single D); and removed from Credit Watch
3	Short term Bank Facilities	90.00 (enhanced from Rs.75.00 crore)	CARE A4 (A Four)	Suspension Revoked; Revised from CARE D (Single D); and removed from Credit Watch
4	Short term Bank Facilities	5.75	CARE D (Single D)	Assigned
	Total Facilities	295.725 (Rupees Two Hundred Ninety Five Crore Seventy Two Lakh and fifty thousand only)		

Details of facilities in Annexure-1

backed by the unconditional, irrevocable and continuing corporate guarantee of Riddhi Siddhi Gluco Biols Limited

Detailed Rationale

The ratings assigned to the bank facilities of Shree Rama Newsprint Limited (SRNL) have been **removed from credit watch due to completion of acquisition** of majority stake by Riddhi Siddhi Gluco Biols Limited (RSGBL) along with the release of corporate guarantee extended by The West Coast Paper Mills Limited (WCPML; rated: CARE BBB+/ CARE A3+).

The revision in standalone ratings of SRNL primarily takes into account the satisfactory track record of debt servicing post debt restructuring along with change in management having high financial flexibility.

The standalone ratings, continue to be constrained due to weak financial risk profile marked by continuous past losses resulting into erosion of net worth base and tight liquidity, risk associated with proposed large sized debt funded expansion project and susceptibility of profitability margins to volatile raw material prices and foreign exchange fluctuation.

The ratings, however, continue to derive strength from the dominant position of SRNL in domestic newsprint industry with strategic location of plant, experienced and resourceful management albeit no prior experience in paper industry and increase in financial flexibility of SRNL with support of RSGBL, parent of SRNL.

The ability of SRNL to improve its profitability margin while managing the volatility in raw material prices and forex fluctuation, improvement in capital structure and liquidity with effective management of working capital and timely completion of the proposed large-sized expansion project within envisaged time and cost parameters and to realise the envisaged benefits out of it would be the key rating sensitivities. Further, the continuous support from RSGBL shall also remain crucial.

The SO rating assigned to the one of the term loan facility (referred in Sr. No.1 above), is based on the credit enhancement in form of unconditional, irrevocable and continuing corporate guarantee of RSGBL. The credit profile of RSGBL derives strength from its comfortable financial risk profile marked by steady cash accruals, comfortable capital structure and strong liquidity backed by large investment portfolio albeit pledged partially. However, the credit profile of RSGBL is constrained by its exposure towards the loss making SRNL's operation with high propensity to support, delay in receipts of wind energy receivables with counter party risk and volatility in traded commodity prices. The ability of RSGBL to improve the operations of SRNL, maintenance of its comfortable capital structure and any large sized debt funded capital expenditure shall be the key rating sensitivities.

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

Detailed description of the key rating drivers

The company undertook the restructuring of its bank limits with its bankers in March 2015. These restructuring were undertaken by all the joint lenders except Axis Bank Limited (Axis Bank). Hence, post restructuring, there were no delays/defaults in repayments of loans and interest except to Axis Bank amounting to Rs.11.25 crore as on March 31, 2016. There was a dispute between the company and Axis bank, since the Joint Lender Forums decision was not implemented by Axis Bank. However, the same is now settled between Axis Bank and SRNL where Axis Bank has agreed to accept Rs.6.00 crore against the total dues of Rs.12.76 crore as on December 31, 2016. The company has already paid Rs.0.25 crore and the balance is to be paid in monthly unequal installments till June 2017.

Mr Ganpatraj Chowdhary, aged 54 years, is the Chairman of SRNL and 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.

SRNL is the one of the largest player in India with the market share of nearly 9-10% which is next to Emami Paper Mills Limited (rated: CARE A/ CARE A1) and Hindustan Newsprints Limited. The location of SRNL's plant is advantageous due to the proximity to the major newspaper publishers in the Northern, Western and Southern region which has resulted into establishment of strong customer base.

The total operating income of the company has remained volatile over past three years ended FY16. Further, despite growth in production and sales volumes during FY16 over FY15, the total operating income remained relatively stable due to fall in average sales realisation of its product i.e. Newsprint. The PBILDT margins too have remained weak and volatile over the years. However, during FY16, the operating loss has reduced as compared to FY15 on the back of saving in raw material and power and fuel cost on the back of decline in commodity prices. Further, with weak PBIDTL margin and high interest cost, the company has been reporting net losses over past three years ended FY16. Furthermore, due to high debt level and cash losses, the debt coverage indicators have remained very weak.

Analytical approach: CARE has considered the standalone financial of SRNL. Moreover, for the rating of guaranteed debt, CARE has considered the standalone operational and financial performance of RSGlobal.

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 1994, SRNL was initially promoted by Mr. Vashu Ram Singhani. Subsequently, in the year 2003, WCPM along with his promoters acquired the majority stake in SRNL. During FY16 (refers to period April 1 to March 31), RSGlobal acquired the majority stake from WCPM and its promoters. As on March 31, 2016, RSGlobal held 74.72% equity stake in SRNL. However, post conversion of convertible debenture held by ICICI Bank Limited into equity shares during January 2017, the equity stake of RSGlobal has reduced to 59.58% as on January 15, 2017.

With an installed capacity of 132,000 Metric Tonnes Per Annum (MTPA); SRNL is one of the largest newsprint manufacturers in the country. 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 per the audited standalone result for FY16, SRNL reported a net loss of Rs.34 crore on a total operating income of Rs.385 crore as against a net loss of Rs.43 crore on a total operating income of Rs.378 crore in FY15. Further, as per the un-audited result for H1FY17, SRNL reported a net loss of Rs.7 crore on a total operating income of Rs.205 crore.

About Guarantor (RSGBL)

Incorporated in 1994 by Ahmedabad based Chowdhary family for manufacturing starch and starch derivatives, RSGBL sold its starch segment to Roquette Riddhi Siddhi Private Limited for Rs.950 crore. The company currently generates income from wind energy generation, trades in agricultural commodities and is engaged in investment activities. It also has a 33.15 megawatt installed windmill capacity spread across Tamilnadu (28.5 MW), Maharashtra (3 MW) and Gujarat (1.65 MW) and has entered into power purchase agreements with state electricity boards at a fixed tariff.

As per the audited standalone result for FY16, RSGBL reported a PAT of Rs.14 crore on a total operating income of Rs.53 crore as against a PAT of Rs.3 crore on a total operating income of Rs.83 crore in FY15. Further, as per the un-audited result for H1FY17, RSGBL reported a PAT of Rs.47 crore on a total operating income of Rs.160 crore.

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.

Analyst Contact

Name: Mr Krunal Modi

Tel: 079-40265614

Cell: +91 85111 90084

Email: krunal.modi@careratings.com

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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-1Details of 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	-	-	March 2026	23.00	CARE BBB (SO); Stable
Fund Based - LT-Working Capital Limits	-	-	-	96.19	CARE BB-; Stable
Non-Fund Based - ST-Working Capital Limits	-	-	-	90.00	CARE A4
Fund Based - LT-Term Loan	-	-	-	80.79	CARE BB-; Stable
Fund Based - ST-Working Capital Demand loan	-	-	-	5.75	CARE D

Annexure 2Rating History for 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 2016-2017	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 - LT-Term Loan	LT	23.00	CARE BBB (SO); Stable	-	1) Suspended (25-Mar-16) 2) CARE BBB (SO) (Under Credit Watch) (26-May-15)	1) CARE BBB (SO) (28-Jan-15)	1) CARE BBB+ (SO) (05-Feb-14) 2) CARE BBB+ (SO) (03-May-13)
2	Fund Based - LT-Working Capital Limits	LT	96.19	CARE BB-; Stable	-	1) Suspended (25-Mar-16) 2) CARE D (Under Credit Watch) (26-May-15)	1) CARE D (28-Jan-15)	1) CARE D (05-Feb-14) 2) CARE B- (03-May-13)
3	Non-Fund Based - ST-Working Capital Limits	ST	90.00	CARE A4	-	1) Suspended (25-Mar-16) 2) CARE D (Under Credit Watch) (26-May-15)	1) CARE D (28-Jan-15)	1) CARE D (05-Feb-14) 2) CARE A4 (03-May-13)
4	Fund Based - LT-Term Loan	LT	80.79	CARE BB-; Stable	-	-	-	-
5	Fund Based - ST-Working Capital Demand loan	ST	5.75	CARE D	-	-	-	-

CONTACT**Head Office Mumbai****Mr. Amod Khanorkar**

Mobile: + 91 98190 84000

E-mail: amod.khanorkar@careratings.com**Mr. Saikat Roy**

Mobile: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CREDIT ANALYSIS & RESEARCH LIMITED**

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. Mehul Pandya**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com**BENGALURU****Mr. Deepak Prajapati**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com**CHANDIGARH****Mr. Sajan Goyal**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali - 160062

Chandigarh

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@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

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