

## Shree Rama Newsprint Limited

February 27, 2019

### Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
1	Long-term Bank Facilities #	12.840	<b>CARE BBB (SO); Stable [Triple B (Structured Obligation); Outlook: Stable]</b>	Reaffirmed
2	Long-term Bank Facilities	170.555	<b>CARE BB+; Stable (Double B Plus; Outlook: Stable)</b>	Revised from CARE BB; Stable (Double B; Outlook: Stable)
3	Short term Bank Facilities	90.000	<b>CARE A4+ (A Four Plus)</b>	Revised from CARE A4 (A Four)
	<b>Total Facilities</b>	<b>273.395 (Rupees Two Hundred Seventy Three Crore Thirty Nine Lakh and Fifty Thousand only)</b>		

*Details of instruments/facilities in Annexure-1*

*# Backed by irrevocable and unconditional corporate guarantee of Riddhi Siddhi Gluco Biols Limited*

### Detailed Rationale & Key Rating Drivers

The revision in standalone ratings assigned to the bank facilities of Shree Rama Newsprint Limited (SRNL) takes into account growth in total operating income along with significant improvement in operating profitability of SRNL during 9MFY19 (FY; refers to the period April 1 to March 31) backed by increase in average sales realization of its products and favourable industry scenario. The revision in ratings also takes into account improvement in debt coverage indicators on the back of improved profitability and healthy cash accruals during 9MFY19.

The ratings are continued to be constrained due to short track record of profitable operation, susceptibility of profitability margins to volatile raw material prices and SRNL's presence in competitive and cyclical newsprint segment with risk of import of cheaper newsprints. The ratings also remain constrained due to relatively high debt level.

The ratings of SRNL, however, continue to derive strength from the dominant position of SRNL in domestic newsprint industry with strategic location of plant, experienced and resourceful management and demonstrated financial support of RSGBL, parent of SRNL.

The ability of SRNL to maintain its profitability margin amidst volatile paper and other commodity prices and improvement in liquidity with effective management of working capital are the key rating sensitivities. Further, continuous support from RSGBL shall also remain crucial from the credit perspective.

**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 financial risk profile marked by steady cash accruals, comfortable capital structure and strong liquidity backed by large investment portfolio.

However, the credit profile of RSGBL is constrained due to high propensity to support operations of SRNL, delay in receipts of wind energy receivables with counter party risk and volatility in traded commodity prices. The credit profile of RSGBL also constrained on account of its high exposure towards inter-corporate deposits and susceptibility of investment portfolio due to volatility in prices of quoted investments and interest rate movement.

The ability of RSGBL to improve operations of SRNL, maintenance of its comfortable liquidity and any large sized debt funded capital expenditure shall be the key rating sensitivities.

### Detailed description of the key rating drivers (SRNL)

#### Key Rating Weaknesses

**Short profitable track record:** SRNL has been reporting negative profitability since past more than 5 years due to weak pricing of its products followed by competitive import of newsprints. The profitability of the company was also impacted due to lower operational efficiency and higher interest burden backed by high debt level. SRNL has demonstrated a short profitable track record for consecutive two quarter ended December 31, 2018. Hence, its ability to maintain present profitability admits volatile paper prices remains to be seen.

**Moderate liquidity:** Due to accumulated losses in the past, SRNL's reliance on external borrowings has remained high including high utilization of working capital borrowings which remained more than 90% for the trailing 12 months ended with December 2018. Further, liquidity of the company remains moderate in light of continuous requirement of up-gradation and modernization capex. Furthermore, the current ratio of the company remains below unity as on March 31,

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

2018 and September 30, 2018 limiting very little room for enhancement in working capital limits. However, the liquidity of the company is supported by need based support in form of unsecured loans from its parent, RSGlobal apart from positive cash accruals of about Rs.47 crore during 9MFY19.

**Susceptibility of profitability to volatile raw material prices:** Major raw material required to manufacture newsprint paper is waste paper. Around 45% of the raw material requirement is met through imported waste paper. The price of waste paper depends critically on the demand-supply position of the same and is subject to high price volatility. Since there is no long-term arrangement for sourcing the same, SRNL is exposed to the risk of raw material price volatility. Previously, SRNL was importing waste under the Letter of credit. However, presently, post the ban on use of Letter of Undertaking (LoU) by RBI, SRNL has started procuring imported waste paper either on advance basis or against the document which eliminates the risk of forex rate fluctuation to a certain extent

**Presence in competitive newsprint segment with increase in cheaper imports:** Due to non-availability of adequate raw materials, domestic paper manufacturers find it difficult to be globally competitive and thus cheap imports are growing. Moreover, duty on imports of paper and paperboard under ASEAN Free Trade Agreement (FTA) is zero. Cheap imports have impact on margins and expansion plans of domestic paper mills.

**Requirement for up-gradation and modernization capex to improve operational efficiency:** SRNL is planning to improve productivity by modernisation capex during FY19 and FY20. During 9MFY19, SRNL has installed water bottle plant, new cooling tower and improved operational efficiency by removing bottlenecks with total cost of about Rs.35 crore. Further, SRNL is also doing modernization capex including conversion of one newsprint machine to produce Writing and Printing Paper (WPP) and improvement of paper sorting to reduce machine break down. Any delay in implementation and stabilisation of the project may put the pressure on the profitability of the company which in turn impact the liquidity of the company. Hence, continuous support from the parent shall be critical from the credit perspective.

**High debt level:** As on March 31, 2018, SRNL had total debt of Rs.354 crore which has reduced to Rs.296 crore as on December 31, 2018 backed by repayment of term debt and relatively low working capital limit utilization supported by positive cash accruals. As on March 31, 2016, SRNL had net worth of Rs.17.36 crore which was restated to Rs.421.44 crore due to adaptation of Ind-As accounting w.e.f. April 1, 2015. Under I-GAAP, property, plant and machinery were stated at cost less accumulated depreciation while as per Ind-As, the company had fair value the fixed assets and assigned significant higher value to fixed assets taking corresponding credit to reserve and surplus. Moreover, SRNL had issued Zero Coupon Debentures (ZCDs) which was valued at carrying cost under I-GAAP while the same is now valued at discounted value/ fair value and accordingly, the gain on fair value was recognized as income in P&L thereby taking credit to reserve and surplus. Further, with the fair valuation of ZCDs, the debt outstanding on books as on March 31, 2016 was restated to Rs.27.65 crore. These ZCDs are repayable on during FY26-FY28.

### Key Rating Strengths

**Significant improvement in profitability and debt coverage indicators during 9MFY19:** During 9MFY19, total operating income of SRNL has grown by 26% on Y-o-Y basis along with significant improvement in operating profitability margin. The operating profitability margin improved largely due to improvement in average sales realization of its product which grew by about 30% during 9MFY19 over FY18 backed by favourable industry scenario. Moreover, with significant improvement in PBILDT margin, SRNL has achieved net profit during 9MFY19 after continuous losses for the past three years ended FY18. Moreover debt coverage indicators marked by interest coverage ratio has also improved significantly on the back of improved profitability and healthy cash accruals during 9MFY19.

**Experienced and resourceful management albeit no prior experience in paper industry:** Mr Ganpatraj Chowdhary, aged 56 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.

**Demonstrated support of RSGlobal, parent of SRNL:** RSGlobal has extended loans and advances of Rs.78.17 crore as on March 31, 2018 (increased from Rs.31.40 crore as on March 31, 2017) which further increased to Rs.124.51 crore as on December 31, 2018. Increase in unsecured loan from parent supports operation of SRNL, working capital requirement and capex plans. Moreover, during Q3FY19, RSGlobal has increased its equity stake by 4.99% in SRNL via open market purchase taking it total equity stake to 64.84% as on December 31, 2018. This further shows the RSGlobal's management confidence in SRNL's business.

**Dominant position in domestic newsprint industry with strategic location of plant:** SRNL is one of the largest players in domestic newsprint market. SRNL's paper plant is located near Hazira, Surat in Gujarat. The location of the 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.

**Industry scenario:** China has banned import of mixed waste paper which has resulted into decline in waste paper price in international market as well as decline in production in China. Further, increase in global price of paper has provided opportunity to raise domestic price. Furthermore, depreciation of Indian rupee and threats of imposition of import duty has increased competitiveness of Indian players. India imports more than 50% of its domestic newsprint paper

requirement. Any change in parity between prices of waste paper and newsprint paper, strengthening of Indian rupee thereby reducing competitiveness of Indian rupee may put pressure on profitability of domestic players.

### Detailed description of the key rating drivers (RSGBL)

#### Key Rating Strengths

**Comfortable liquidity of RSGBL:** As on March 31, 2018, the company had liquid investment held in mutual fund and equity shares of listed companies having a market value around Rs.356 crore. Apart from investment portfolio, RSGBL through its subsidiary, Riddhi Siddhi Infraspace LLP (RSILLP), also hold sizable land parcel in Ahmedabad having book value of approximately Rs.280 crore. Moreover, RSGBL also extended inter-corporate deposits (ICDs) (placed with non-related parties) worth Rs.405 crore as on March 31, 2018 which has reduced to Rs.346 crorer as on December 31, 2018 and as per the management these ICDs are call backed on demand which too supports the liquidity.

#### Key Rating Weaknesses

**Credit risk associated with ICDs and susceptibility of investment portfolio due to volatility:** During FY18, the company has provided for doubtful loans of Rs.22.32 crore towards the ICDs. Though, as per the management, these dues are recoverable in nature and they do not foresee any bed debts. However, there is always a credit risk associated with such a large size ICDs. Moreover, company holds sizable investment portfolio both in quoted equity shares and debt mutual funds, the values of which are susceptible to movement in market prices along with interest rate movement.

**Delay in receipts of wind energy receivables with counter party risk and volatility in traded commodity prices:** RSGBL has 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. With a significant portion of wind power generation capacities located in Tamilnadu, the company faces risks related to stretch receivables, given the weak financial risk profile of Tamilnadu State Electricity Board. Moreover, RSGBL also trades in agro commodity which makes the profitability susceptible to volatility in commodity prices.

**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 RSGBL.

#### Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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

[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, West Coast Paper Mills Limited (WCPM) along with his promoters acquired the majority stake in SRNL. However, during FY16, RSGBL acquired the majority stake from WCPM and its promoters. 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.

(Rs. crore)

Brief Financials	FY17 (Aud.)	FY18 (Aud.)
Total operating income	400.12	436.21
PBILDT	25.56	12.45
PAT	(8.94)	(29.91)
Overall gearing (times)	0.67	0.86
Interest coverage (times)	1.39	0.59

During 9MFY19, as per un-audited results, SRNL reported a net profit of Rs.24.54 crore on total operating income of Rs.408.53 crore as against net loss of Rs.21.30 crore on total operating income of Rs.325.96 crore during 9MFY18.

#### About the 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.

(Rs. crore)

Brief Financials	FY17 (Aud.)	FY18 (Aud.)
Total operating income	142.15	462.19
PBILDT	33.57	74.94
PAT	9.59	87.59
Overall gearing (times)	0.35	0.12
Interest coverage (times)	1.26	2.03

During 9MFY19, as per un-audited results, RSGBL reported a net loss of Rs.1.61 crore on total operating income of Rs.140.71 crore as against net profit of Rs.46.02 crore on total operating income of Rs.80.56 crore and in 9MFY18.

**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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**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	-	-	March 2026	12.84	CARE BBB (SO); Stable
Fund-based - LT-Term Loan	-	-	March 2026	74.37	CARE BB+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	96.19	CARE BB+; Stable
Non-fund-based - ST-Working Capital Limits	-	-	-	90.00	CARE A4+

## 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	12.84	CARE BBB (SO); Stable	1)CARE BBB (SO); Stable (08-Oct-18)	1)CARE BBB (SO); Stable (25-Sep-17)	1)CARE BBB (SO); Stable (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE BBB (SO) (Under Credit Watch) (26-May-15)
2.	Fund-based - LT-Working Capital Limits	LT	96.19	CARE BB+; Stable	1)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)	1)CARE BB-; Stable (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE D (Under Credit Watch) (26-May-15)
3.	Non-fund-based - ST-Working Capital Limits	ST	90.00	CARE A4+	1)CARE A4 (08-Oct-18)	1)CARE A4 (25-Sep-17)	1)CARE A4 (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE D (Under Credit Watch) (26-May-15)
4.	Fund-based - LT-Term Loan	LT	74.37	CARE BB+; Stable	1)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)	1)CARE BB-; Stable (06-Feb-17)	-
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (25-Sep-17)	1)CARE D (06-Feb-17)	-



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CIN - L67190MH1993PLC071691