

Shree Rama Newsprint Limited

September 25, 2017

Ratings

Sr. No	Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
1	Long-term Bank Facilities #	23.000	CARE BBB (SO); Stable [Triple B (Structured Obligation; Outlook: Stable)]	Reaffirmed
2	Long-term Bank Facilities	175.905	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable
3	Short-term Bank Facilities	90.000	CARE A4 (A Four)	Reaffirmed
4	Short-term Bank Facilities @	-	-	Withdrawn
	Total	288.905 (Rupees Two Hundred Eighty Eight Crore Ninety Lakh and Fifty Thousand only)		

Details of facilities in Annexure-1

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

@ We have noted that SRNL has repaid the aforementioned loan in full and there is no outstanding under the said facility as on date. Taking cognizance of this, we hereby withdraw our rating for said bank facility.

Detailed Rationale & Key Rating Drivers

The revision in standalone rating assigned to the long term bank facilities of Shree Rama Newsprint Limited (SRNL) takes into account improved operating profitability during FY17 after reporting consecutive operating losses for past three years leading to improvement in debt coverage indicators. Further, the revision also takes into account demonstrated financial support from parent company, Riddhi Siddhi Gluco Biols Limited (RSGBL) and reduction in project size.

The standalone ratings continue to be constrained due to thin profitability which is susceptible to volatile raw material prices and foreign exchange fluctuation, SRNL's tight liquidity and risk associated with proposed debt funded expansion project. The ratings also remain constrained due to SRNL's presence in competitive newsprint segment with increasing import of cheaper newsprints. The ratings also factor in temporary disruption in demand during H1FY18 due to implementation of Goods and Service Tax (GST) which may impacts the profitability in near term.

The ratings of SRNL, however, continue to derive strength from its dominant position of SRNL in domestic newsprint industry with strategic location of plant, experienced and resourceful management, satisfactory track record of debt servicing post debt restructuring and demonstrated support of RSGBL, parent of SRNL.

The ability of SRNL to further improve its profitability margin while managing the volatility in raw material prices and forex fluctuation, and improvement in liquidity with effective management of working capital are the key rating sensitivities. Further, timely completion of the proposed expansion project within envisaged time and cost parameters and to realise the envisaged benefits and 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

Key Rating Weaknesses

Weak financial risk profile marked by high debt and stressed liquidity: The liquidity of the company remains tight due to continuous losses in past three years resulting into high reliance on external borrowing including creditors. 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. With implementation of 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. Both these major changes have strengthened the net worth base of SRNL as on March 31, 2016 (restated) and March 31, 2017. Further, with the fair valuation of ZCDs, the debt outstanding on books as on March 31, 2016 was restated to Rs.27.65 crore.

SRNL reported a decline in PBILDT margin during Q1FY18 over FY17 on the back of decline in average sales realization with increase in competitive import of newsprint coupled with disruption in demand during end of June 2017 on account of GST implementation.

Susceptibility of profitability to volatile raw material prices & foreign exchange fluctuation: Major raw material required to manufacture newsprint paper is waste paper. Around 40% 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.

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.

Risk associated with proposed debt funded expansion project: SRNL was planning to enhance the installed capacity from existing 132,000 MTPA to 208,000 MTPA with an envisaged cost of Rs.200 crore which was planned to fund through term debt of Rs.130 crore. The Company has however scaled down the project to Rs.66 crore with enhancement in installed capacity to 169,000 MTPA. The project is expected to be funded through the term debt of Rs.40 crore and balance through the equity contribution from RSGBL. The management expects the expansion project to commission by October 2018. 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 especially on the backdrop of existing weak financial risk profile of the company.

Key Rating Strengths

Improvement in operating profitability during FY17 leading to improvement in debt coverage: After reporting consecutive operating losses during more than three years ended FY16, company reported an improvement in operating profitability during FY17 with modest PBILDT margin. Moreover, the improvement in PBILDT also factors in receipts of insurance claim amounting to Rs.5.50 crore during FY17. Increased PBILDT and lower interest cost resulted into improvement in interest coverage during FY17.

Demonstrated support of RSGBL, parent of SRNL: Apart from the investment of Rs.60 crore in SRNL, RSGBL also has extended loans and advances of Rs.24.46 crore as on March 31, 2017 (increased from Rs.6.93 crore as on March 31, 2016) and further increased to Rs.60 crore as on June 30, 2017. Moreover, RSGBL also arranged the working capital limits for SRNL through pledge of mutual fund and liquid investments held by it.

Experienced and resourceful management: Mr Ganpatraj Chowdhary, aged 55 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 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.

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.

Satisfactory track record of debt servicing post restructuring: The Company undertook the restructuring of its bank limits with its bankers in March 2015. In this process, bankers have agreed to convert part of its bank limits including overdues into Zero Coupon Non-Convertible Debentures and Zero Coupon Convertible Debentures (which got converted into equity during January 2017). Moreover, the bankers have also agreed for restructuring of terms loans installments under the Joint Lender Forum (JLF). However, the Axis bank has not agreed for JLF decision and the dues of Axis Bank were settled separately. Moreover, SRNL has completely repaid the dues of Axis Bank by June 2017 as per the agreed terms of settlement.

Comfortable liquidity of RSGlobal: As on March 31, 2017, the company had liquid investment held in mutual fund and equity shares of listed companies having a market value of around Rs.925 crore (the value of liquid investment net of pledge stood at Rs.300 crore). During Q1FY18, RSGlobal sold mutual funds worth of Rs.550 crore and the proceeds from sale of mutual fund were used for repayment of debts and the part of it were also used in investment in listed securities. As on June 30, 2017, RSGlobal holds free liquid investments (net of pledge) having market value worth Rs.244 crore as against the total outstanding debt of Rs.102 crore.

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

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

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

[CARE's Methodology for Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Policy on Withdrawal of ratings](#)

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, RSGlobal acquired the majority stake from WCPM and its promoters. As on June 30, 2017, RSGlobal holds 59.85% equity stake in SRNL along with ICICI Bank Limited which holds 19.90% equity stake.

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.

Brief Financials (Rs. crore)	FY16 (Aud.)	FY16 (Aud.)	FY17 (Aud.)
Accounting Standard Adopted	I-GAAP	IND-AS	IND-AS
Total operating income	385.46	383.25	400.12
PBILDT	(12.75)	(12.63)	25.56
APAT	(34.18)	4.78	(8.94)
Overall gearing (times)	17.89	0.71	0.67
Interest coverage (times)	-ve	-ve	1.39

During Q1FY18, as per un-audited results, SRNL reported a net loss of Rs.7.90 crore on total operating income of Rs.91.67 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.

Brief Financials (Rs. crore)	FY16 (Aud.)	FY16 (Aud.)	FY17 (Aud.)
	Standalone		
Accounting Standard Adopted	I-GAAP	IND-AS	IND-AS
Total operating income	73.36	73.60	142.15
PBILDT	21.99	22.13	33.57
APAT	14.20	29.64	9.59
Overall gearing (times)	1.18	0.18	0.35
Interest coverage (times)	2.78	1.15	1.26

During Q1FY18, as per standalone un-audited results, RSGBL reported a net profit of Rs.26.72 crore on total operating income of Rs.29.27 crore.

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.

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Annexure-1: Details 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	-	-	June, 2020	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	-	-	June, 2025	79.72	CARE BB; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	5.75	Withdrawn

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	23.00	CARE BBB (SO); Stable	-	1)CARE BBB (SO); Stable (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE BBB (SO) (Under Credit Watch) (26-May-15)	1)CARE BBB (SO) (28-Jan-15)
2.	Fund-based - LT-Working Capital Limits	LT	96.19	CARE BB; Stable	-	1)CARE BB-; Stable (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE D (Under Credit Watch) (26-May-15)	1)CARE D (28-Jan-15)
3.	Non-fund-based - ST-Working Capital Limits	ST	90.00	CARE A4	-	1)CARE A4 (06-Feb-17)	1)Suspended (25-Mar-16) 2)CARE D (Under Credit Watch) (26-May-15)	1)CARE D (28-Jan-15)
4.	Fund-based - LT-Term Loan	LT	79.72	CARE BB; Stable	-	1)CARE BB-; Stable (06-Feb-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	-	Withdrawn	-	1)CARE D (06-Feb-17)	-	-

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CIN - L67190MH1993PLC071691