

Shree Rama Newsprint Limited

October 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities #	12.840	CARE BBB (SO); Stable [Triple B (Structured Obligation; Outlook: Stable)]	Reaffirmed
Long-term Bank Facilities	170.555	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	90.000	CARE A4 (A Four)	Reaffirmed
Total Facilities	273.395 (Rupees Two Hundred Seventy Three Crore Thirty Nine Lakh and Fifty Thousand only)		

Bank facilities are backed by the unconditional, irrevocable and continuing corporate guarantee of Riddhi Siddhi Gluco Biols Limited (RSGBL).

Detailed Rationale & Key Rating Drivers

The standalone ratings assigned to the bank facilities of Shree Rama Newsprint Limited (SRNL) continue to be constrained due to weak financial risk profile marked by continuous losses and stressed liquidity and susceptibility of profitability margins due to volatile raw material prices and foreign exchange fluctuation. The ratings also remain constrained due to SRNL's presence in competitive newsprint segment with risk of import of cheaper newsprints.

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 ratings also favourably factor in improvement in profitability margins of SRNL during Q1FY19 backed by improvement in average sales realization of its products.

The ability of SRNL to significantly improve its profitability margin amidst volatile raw material prices and forex fluctuation 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 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 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 the 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

Key Rating Weaknesses

Weak financial risk profile marked by continuous losses and stressed liquidity: The total operating income of SRNL grew by 9% during FY18 backed by increase in average sales realization and increase in sales volumes. However, PBILDT margin declined during FY18 due to increase in raw material cost which the company was not able to pass on to its customers due to competitive market and cheap import. Moreover, the profitability was also impacted during the year on account of disruption in demand on account of GST implementation especially in H1FY18.

The liquidity of the company remains tight due to continuous losses in past three years resulting into high reliance on external borrowing including creditors. Moreover, the fund based limit utilization remained high for the trailing 12 months ended with July 2018.

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.

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

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.

Continues requirement for upgradation and modernization capex to improve operational efficiency: The company had planned to enhance the installed capacity from existing 132,000 MTPA to 169,000 MTPA with a total cost of Rs.66 crore which was expected to be funded through the term debt of Rs.40 crore and balance through the equity contribution from RSGBL. However, SRNL has put hold on expansion plan and instead of expansion; SRNL is planning to improve productivity by modernisation capex during FY19 and FY20. Moreover, SRNL is also planning to install water bottling plant. Total cost of modernisation capex and water bottle plant is expected to be funded through unsecured loans from RSGBL. Moreover, during Q2FY19 there was temporary shutdown of manufacturing plant of SRNL due to collapse of cooling tower of power plant. Apart from modernization capex, SRNL is also planning to replace cooling tower within 2-3 months. 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. Hence, continuous support from the parent shall be critical from the credit perspective.

Key Rating Strengths

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 RSGBL which was promoted by Mr Ganpatraj along with other family members in 1994 for manufacturing of starch and starch derivatives.

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.78.17 crore as on March 31, 2018 (increased from Rs.31.40 crore as on March 31, 2017) which further increased to Rs.99.31 crore as on June 30, 2018. Increase in unsecured loan from parent supports operation of SRNL, working capital requirement and capex plans.

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.

Improvement in operating profitability during Q1FY19 and present favorable industry scenario may lead to overall improvement in financial profile in medium term: During Q1FY19, scale of operations of SRNL has grown by 23% 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 products backed by favourable industry scenario. Moreover, it is to be noted that the company has provided for one-time loss due to fire amounting to Rs.8.47 crore in Q1FY19 despite which the operating profitability improved significantly on a Y-o-Y basis.

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. During Q1FY19, prices of newsprint have increased by about 25%. 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. Increase in competitiveness of Indian player will lead to higher domestic production with better profitability margins.

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

Brief Financials (Rs. crore)	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 Q1FY19, as per un-audited results, SRNL reported a net loss of Rs.1.03 crore on total operating income of Rs.113.17 crore as against total operating income of Rs.91.67 crore and net loss of Rs.7.90 crore in Q1FY18.

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.

Brief Financials (Rs. crore)	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 Q1FY19, as per un-audited results, RSGBL reported a net loss of Rs.0.82 crore on total operating income of Rs.53.81 crore as against net profit of Rs.26.72 crore on total operating income of Rs.29.27 crore and in Q1FY18.

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 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 (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 (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 (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 (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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