Shree Rama Newsprint Limited

November 18, 2020

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
I	Long-term Bank Facilities	154.84	**CARE BB+ (Double B Plus); Under credit watch with developing implications**	Placed under Credit Watch with Developing Implications
II	Long term/ Short term Bank Facilities	6.00	**CARE BB+ / CARE A4+ (Double B Plus/ A Four Plus); Under credit watch with developing implications**	Placed under Credit Watch with Developing Implications
III	Long-term Bank Facilities @	2.56	**CARE BBB- (CE) [Triple B Minus (Credit Enhancement]; Under credit watch with developing implications**	Revised from CARE BBB (CE); Negative [Triple B (Credit Enhancement; Outlook: Negative] and Placed under Credit Watch with Developing Implications
	Total Facilities	**163.40 (Rupees One Hundred Sixty-Three Crore and Forty Lakhs Only)**		

Details of facilities/instruments in Annexure-1

@ Bank facilities are backed by the unconditional and irrevocable corporate guarantee of Riddhi Siddhi Gluco Biols Limited

Detailed Rationale & Key Rating Drivers [Shree Rama Newsprint Limited (SRNL)]

The ratings assigned to the bank facilities of SRNL have been placed under 'Credit Watch with Developing Implications'. The rating action takes cognizance of the company's application to its lender for restructuring of its term loans on September 24, 2020 under the Reserve Bank of India's (RBI) guidelines issued on August 6, 2020. The company's proposal is under consideration by its lender. Pending the restructuring request, SRNL did not service its monthly payments due on September 30, 2020. Since the application for restructuring by the company was made before the due date of the debt repayment and the same is under consideration by its lender, CARE has not treated the missed debt payment as default. The rating action is in line with CARE Ratings Ltd.'s criteria on 'Analytical treatment for one-time restructuring due to Covid-19 related stress', issued on September 29, 2020.
https://www.careratings.com/pdf/resources/Analytical%20treatment%20of%20restructuring%20-%20COVID-Revised17-11-2020.pdf
CARE will monitor the outcome of the loan restructuring proposal and its implications on the credit profile of SRNL. Receipt of approval of restructuring prior to December 31, 2020 is a key rating sensitivity. The ratings may be removed from credit watch and final rating action will be taken once clarity emerges on the outcome of the proposed restructuring plan. Further, it is to be noted that the company had also availed the moratorium on payment of debt obligations from March 2020 to August 2020 from its lenders as part of the Covid relief measures announced by the RBI.
The standalone/ unsupported ratings assigned to the bank facilities of SRNL continue to be constrained due to its volatile total operating income and profitability, high debt level, susceptibility of its profitability to volatility in raw material prices and its presence in a competitive and cyclical newsprint segment; along with risk of cheaper import. CARE also takes cognizance of the weak financial performance of SRNL during H1FY21 (UA; FY refers to period April 1 to March 31) on account of the country-wide lockdown/disruption arising from the outbreak of the Covid-19 pandemic, subdued demand for newsprint paper and writing & printing paper (WPP) along with temporary shutdown of operations of its paper division on the back of closure order issued by Gujarat Pollution Control Board (GPCB).
The standalone/unsupported ratings of SRNL, however, continue to derive strength from its experienced and resourceful management, financial support extended by its parent Riddhi Siddhi Gluco Biols Limited (RSGBL) and the established position of SRNL in domestic newsprint industry with strategic location of its plant. The ratings also factor in completion of up-gradation and modernization capex which may benefit its operations going ahead.

Rating Sensitivities

Positive Factors:

- Complete realization of envisaged benefits from its recently completed up-gradation and modernization project

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

- Improvement in PBIDLT margin in the range of 10-12% and ROCE of more than 10% on sustained basis

Negative Factors:
- Change in RSGBL's management's stance to support the operations of SRNL and/or deterioration in the credit profile of RSGBL
- Continued weak profitability marked by PBILDT margin of less than 8% on sustained basis
- Rejection of One-Time Restructuring (OTR) application or delay in implementation

Detailed Rationale & Key Rating Drivers for the CE Rating (based upon assessment of the corporate guarantor, RSGBL)
The CE rating assigned to the bank facility of SRNL (referred in Sr. No. III above) is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by its parent, RSGBL.
The revision in the CE rating of the long term bank facilities of SRNL is on account of moderation in the credit profile of RSGBL arising from gradual reduction of its available liquidity from Rs.926 crore of liquid investments as on March 31, 2017 to Rs.130 crore of liquid investments as on March 31, 2020 due to continuous increase in its exposure towards Inter Corporate Deposits (ICDs) which in turn also restricts the financial flexibility of RSGBL.
The credit profile of RSGBL continues to derive strength from its financial risk profile marked by steady cash accruals, comfortable capital structure and its adequate liquidity.
The credit profile of RSGBL, however, continues to remain constrained due to high propensity to support operations of SRNL, delay in realization of wind energy receivables with counter party risk and volatility in traded commodity prices. The credit profile of RSGBL also factors in credit risk associated with ICDs and susceptibility of its investment portfolio to volatility in prices of quoted investments and interest rate movement.

Rating Sensitivities
Positive Factors:
- Improvement in financial performance of SRNL which reduces the propensity of RSGBL to support the operation of SRNL
- Significant reduction in ICD extended by RSGBL

Negative Factors:
- Deterioration in liquidity with increase in net debt above Rs.100 crore on a sustained basis

Detailed description of the key rating drivers (SRNL)
Key Rating Weaknesses
Weak financial performance during FY20 and H1FY21: SRNL had incurred significant net loss of Rs.44.64 crore and cash loss of Rs.15.14 crore in FY20 mainly due to weak PBILDT margin of 2.61% and around 33% fall in its total operating income (TOI). The PBIDLT margin of the company remained weak due to lower average sales realization of newsprint apart from lower production and sales volume. There was also some disruption in production due to implementation of up-gradation and modernization capex during the year.
Further, during H1FY21, total operating income of SRNL registered de-growth of 52% on y-o-y basis. Decline in TOI was mainly due to lockdown announced by Government of India to contain Covid-19 pandemic, subdued demand for newsprint paper and writing & printing paper along with temporary closure of paper division during Q2FY21 (from August 08, 2020 to October 02, 2020) on the back of closure order issued by GPCB. With significant decline in sales, SRNL reported negative operating profit (PBILDT) due to lower absorption of fixed cost and in turn reported net loss. However, the loss of SRNL is being funded by unsecured loans from RSGBL.

High debt level: Despite scheduled repayment of term loan, total debt of SRNL continued to remain high at Rs.393 crore as on March 31, 2020 due to increase in unsecured loans from RSGBL to fund the losses apart from meeting its working capital and capex requirement. The total debt of SRNL further increased to nearly Rs.410 crore as on September 30, 2020 largely due to increase in unsecured loans from RSGBL. As on March 31, 2016, SRNL had net worth of Rs.17.36 crore which was restated to Rs.421.44 crore due to adoption 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 undertaken fair value of the fixed assets and assigned significant higher value to fixed assets taking corresponding credit to reserves 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 reserves and surplus. Further, with the fair valuation of ZCDs, the debt outstanding on the books as on March 31, 2016 was restated to Rs.27.65 crore. These ZCDs are repayable during FY26-FY28.

Susceptibility of profitability to volatile raw material prices: Major raw material for manufacturing of newsprint and WPP is waste-paper. Around 35-45% of the raw material requirement of SRNL 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. SRNL procures imported waste-paper either on advance payment 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. Further, Government of India during Budget 2020 reduced import duty on newsprint paper from 10% to 5%. Import duty and depreciation of Indian rupee has significant impact on capacity utilization and profitability margins of Indian paper mills as 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.

Completion of up-gradation and modernization capex; albeit high saleability risk amidst subdued industry scenario due to Covid-19 pandemic: SRNL had commissioned its integrated packaged drinking water bottle plant in July 2019 having installed capacity of 32,000 BPH (bottle per hour) funded through unsecured loans from RSGBL. SRNL is outsourcing for 'clear' brand for 200ml and 500ml of water bottle. Moreover, SRNL has upgraded and modernized its existing plant and machinery funded through unsecured loans from RSGBL. The capex includes refurbishment of both machines and enabling flexibility in manufacturing of Newsprint and Writing and Printing Paper (WPP), apart from improvement in efficiency. SRNL has also refurbished its machine to manufacture Kraft paper as well to insulate from subdued demand of newsprint and WPP. One machine was fully re-furbished and it has started producing WPP since October 2019 while re-furbishing of remaining machine was completed in H1FY21. The project was expected to benefit the company in terms of improvement in scale of operation and more stability to profitability margin. However, demand of newsprint paper and writing and printing paper has remained subdued due to Covid-19 pandemic which resulted into lower circulation of newspapers and due to temporary closure of schools, colleges and offices. Moreover, demand of packaged drinking water bottle is also affected due to impact on aviation and hospitality industry as SRNL used to cater to customers like Air India, Marriott etc. Delay in stabilisation of the project may exert pressure on the profitability of the company which in turn could impact its liquidity especially in the backdrop of existing below average 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 58 years, is the Chairman of SRNL. His son, Mr Siddharth Chowdhary, who possesses more than a decade long experience in managing various businesses, 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: RSGBL had extended loans and advances of Rs.210 crore as on March 31, 2020 (increased from Rs.153 crore as on March 31, 2019) which further increased to Rs.220 crore as on September 30, 2020. Increase in unsecured loan from parent supports the operation of SRNL, working capital requirement, debt servicing and capex. Moreover, during Q1FY21, RSGBL has increased its equity stake in SRNL by 4.95% via open market purchase taking its total equity stake to 74.76% as on September 30, 2020. This reflects RSGBL's management's confidence in SRNL's business prospects.

Established 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 its proximity to the major newspaper publishers in the Northern, Western and Southern region which has resulted in establishment of strong customer base.

Liquidity: Stretched

The liquidity of SRNL remains stretched due to cash loss incurred during FY20 and H1FY21 resulting into high reliance on working capital borrowings with continued high average fund based working capital limit utilization of more than 90%. SRNL had opted for moratorium for the period from Mar'20 to Aug'20 on interest and principal repayment for all its outstanding term loans and has also availed moratorium on interest payment for its working capital limits as part of the Covid relief measures announced by the RBI. Subsequently, it has requested for OTR to its lender. Liquidity of the company is largely supported by need based support in the form of unsecured loans from its parent, RSGBL.

Detailed description of the key rating drivers (for the CE rating based on credit profile of RSGBL)

Key Rating Strengths

Adequate liquidity of RSGBL; albeit moderation during FY20: As on March 31, 2019, RSGBL had liquid investment of around Rs.332 crore which reduced to Rs.130 crore as on March 31, 2020 and stood at Rs.141 crore as on September 30, 2020 vis-à-vis its total debt obligation of Rs.97 crore (including guaranteed debt). Further, RSGBL through its subsidiary, Riddhi Siddhi Infraspace LLP (RSILLP) held sizable land parcel in Ahmedabad having book value of approximately Rs.280 crore. RSGBL has sold major part of this land and expects to realize proceeds from sale of land completely by March 2021. Any delay in receipt of proceeds from sale of land may result in reduction in liquid investments amidst increasing propensity to support SRNL. Apart from the available liquid investment and land portfolio, RSGBL has also extended short term ICDs to various parties which too can be called back on demand to support its liquidity according to the management. RSGBL further derives financial flexibility by virtue of its comfortable standalone leverage marked by overall gearing of 0.07 times as on March 31, 2020.

Key Rating Weaknesses

Increase in exposure towards ICDs with inherent credit risk and susceptibility of investment portfolio due to volatility: There has been a consistent extension of ICDs by RSGBL which remained at Rs.605 crore as on March 31, 2020 (increased from Rs.462 crore as on March 31, 2019) and further increased to Rs.721 crore as on September 30, 2020 which is more than 50% of standalone tangible net-worth of RSGBL as on September 30, 2020. Moreover, there remains an inherent credit risk associated with large size ICDs. Further, 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 realization of wind energy receivables with counter party risk and volatility in traded commodity prices: RSGBL has 33.15 megawatt installed windmill capacity spread across Tamil Nadu (28.5 MW), Maharashtra (3 MW) and Gujarat (1.65 MW) and has entered into power purchase agreements with state power sector utilities at a fixed tariff. With a significant portion of wind power generation capacities located in Tamil Nadu, the company faces risks related to stretch in its receivables, given the weak financial risk profile of the Discom in the State of Tamil Nadu. Moreover, RSGBL also trades in agro commodity which makes the profitability susceptible to volatility in commodity prices.

Increased propensity to support the loss-incurring operations of SRNL: RSGBL’s exposure to SRNL has increased to Rs.334 crore as on March 31, 2020 as against Rs.262 crore as on March 31, 2019 which further increased during H1FY21. Moreover, exposure of RSGBL in SRNL is further expected to increase in the backdrop of expected weak performance of SRNL in near term. RSGBL has funded the operation of SRNL through available liquid investment which over a period of time has reduced. Moreover, in case of any delay in receipt of restructuring approval from the lender or if SRNL’s application is rejected, RSGBL shall be required to extend further support to ensure timely servicing of SRNL's debt.

Analytical Approach:

Standalone/Unsupported Rating: CARE has considered the standalone financials of SRNL along with expected need-based support from its parent, RSGBL.

Credit Enhanced (CE) Rating: CARE has considered the unconditional and irrevocable corporate guarantee extended by RSGBL for rating of the guaranteed debt in SRNL. RSGBL’s assessment is based on its standalone operational and financial performance along with its exposure towards need-based support to SRNL.

Applicable Criteria

Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings
CARE’s Policy on Default Recognition
Analytical Treatment for one time restructuring (OTR) due to Covid-19 related stress
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Notching by factoring linkages in Ratings
Rating of loans by investment holding companies
Criteria for Rating Credit Enhanced Debt
CARE’s methodology for manufacturing companies
Liquidity Analysis of Non-Financial Sector Entities

About the Company (SRNL)

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 its promoters acquired the majority stake in SRNL. However, during FY16, RSGBL acquired the majority stake from WCPM and its promoters.

SRNL is engaged in manufacturing of Newsprint paper, WPP and kraft paper. SRNL has a captive coal-based power plant which has power generation capacity of 23 MW. Moreover, SRNL has also started production of packaged drinking water bottle of "clear" brand from July 2019. 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 on September 30, 2020, SRNL has an aggregate installed capacity of 132,000 Metric Tonnes Per Annum (MTPA) of Newsprint and WPP.

Brief Financials (Rs. crore)	FY19 (Aud.)	FY20 (Aud.)
Total operating income	503.89	336.60
PBILDT	96.97	8.80
PAT	38.23	(44.64)
Overall gearing (times)	0.74	0.97
Interest coverage (times)	3.96	0.32

During H1FY21, as per un-audited results, SRNL reported a net loss of Rs.49.74 crore on total operating income of Rs.71.91 crore as against net loss of Rs.25.31 crore on total operating income of Rs.148.95 crore during H1FY20.

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 a consideration of Rs.950 crore which generated significant liquidity in the company and the same has been gradually invested in various ventures over the years. 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 Tamil Nadu, Maharashtra and Gujarat and has entered into power purchase agreements with state Discoms at a fixed tariff.

Brief Financials (Rs. crore)	FY19 (Aud.)	FY20 (Aud.)
Total operating income	251.54	159.07
PBILDT	99.16	85.71
PAT	44.53	69.11
Total Comprehensive Income	37.99	18.80
Overall gearing (times)	0.09	0.07
Interest coverage (times)	5.96	9.17

During H1FY21, as per un-audited results, RSGBL reported a net profit of Rs.23.00 crore on total operating income of Rs.127.66 crore as against net profit of Rs.28.06 crore on total operating income of Rs.65.39 crore in H1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-3

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	-	-	December 2020	2.56	CARE BBB- (CE) (Under Credit watch with Developing Implications)
Fund-based - LT-Working Capital Limits	-	-	-	88.19	CARE BB+ (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	6.00	CARE BB+ / CARE A4+ (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	December 2025	66.65	CARE BB+ (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.56	CARE BBB- (CE) (Under Credit watch with Developing Implications)	-	1)CARE BBB (CE); Negative (21-Feb-20)	1)CARE BBB (SO); Stable (27-Feb-19) 2)CARE BBB (SO); Stable (08-Oct-18)	1)CARE BBB (SO); Stable (25-Sep-17)
2.	Fund-based - LT-Working Capital Limits	LT	88.19	CARE BB+ (Under Credit watch with Developing Implications)	-	1)CARE BB+; Stable (21-Feb-20)	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST	6.00	CARE BB+ / CARE A4+ (Under Credit watch with Developing Implications)	-	1)CARE BB+; Stable / CARE A4+ (21-Feb-20)	1)CARE A4+ (27-Feb-19) 2)CARE A4 (08-Oct-18)	1)CARE A4 (25-Sep-17)
4.	Fund-based - LT-Term Loan	LT	66.65	CARE BB+ (Under Credit watch with Developing Implications)	-	1)CARE BB+; Stable (21-Feb-20)	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (25-Sep-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Limits	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Krunal Modi
Contact no. – +91-79-40265614/+91-8511190084
Email ID – krunal.modi@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. – +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:
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