Shreyans Industries Limited

January 02, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	58.87 (enhanced from 35.97)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	44.00 (enhanced from 40.00)	**CARE A2+ [A Two Plus]**	Reaffirmed
Total Facilities	**102.87 (Rs. One hundred and two crore and eighty seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shreyans Industries Limited (SIL) continue to derive strength from the experienced promoters, long track record of operations and comfortable liquidity position of the company. The ratings further derive strength from the comfortable financial and operational performance, well-established distribution network, diversified product profile, proximity of the manufacturing plant to raw material sources and various cost-saving measures implemented.

The ratings are, however, constrained by the competitive nature of the industry and susceptibility of the profitability margins to volatility in raw material prices & foreign exchange fluctuations.

Rating Sensitivities

Positive Factors

- *Sustainable and substantial growth in the income while maintaining an overall gearing ratio under 0.5x and PBILDT margins improving significantly from the ~12-14% range*

Negative Factors

- *Significant decline in income or PBILDT margins falling substantially below the projected ~8% with significant deterioration in the overall gearing ratio due to debt funded capex, increased working capital reliance, etc.*

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations: SIL has been in the paper manufacturing business for more than three and a half decades now which has led to well-established relationships with the suppliers as well as the customers. Mr Rajneesh Oswal, the current Chairman & Managing Director of SIL, has an overall experience of more than two and a half decades. Mr Vishal Oswal, the current Vice Chairman & Managing Director of SIL, has an overall experience of more than two decades. Other directors of the company include Mr Kunal Oswal having an overall experience of around one and a half decade. The promoters of the company have extended financial support in the past to fund various business requirements of the company. The unsecured loans/deposits infused by the promoters and related parties stood at Rs.5 crore, as on March 31, 2019 (Previous Year: Rs.6.34 Cr.).

Comfortable operational & financial performance: The total operating income of SIL increased by ~20% in FY19 (refers to the period April 01 to March 31) on the back of better sales realizations and increased quantity sold. The capacity utilisation levels improved in FY19 on the back of increased efficiency and productivity of the plant due to debottlenecking done during FY18. The production increase was also facilitated by favourable demand. Owing to higher economies of scale and the debottlenecking capex undertaken in FY18, the profitability margins viz. with PBILDT and PAT margins, improved to 14.18% and 8.16% respectively, in FY19 from 12.73% and 6.69% respectively in FY18. The capital structure remained comfortable with the debt to equity ratio and overall gearing ratio improving from 0.19x and 0.29x respectively, as on March 31, 2018 to 0.09x and 0.24x respectively, as on March 31, 2019 on account of healthy accretion of profits to the net-worth as well as scheduled repayments and prepayment of loans during FY19. The debt coverage indicators also remained comfortable in FY19. The interest coverage ratio improved in FY19 while the total debt to GCA ratio also improved to 0.80x as on March 31, 2019 from 1.44x as on March 31, 2018 on account of better profitability during the year.

The total income of SIL grew by ~8% in H1FY20 (UA) as compared to H1FY19 (UA) on the back of improved sales realisations and increase in quantity sold. The prices of the primary raw material of the company viz. wheat straw etc., however, have witnessed an increase which the company was unable to pass on to the customers completely owing to the competitive industry environment and demand slowdown in Q2FY20. This has led to a decline in PBILDT and PAT margins to 11.01% and

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

6.54% respectively in H1FY20 (UA) as compared to 13.32% and 6.98% respectively, in H1FY19 (UA). The interest coverage ratio, however, continued to remain comfortable at 14.24x in H1FY20 (UA) improving from 11.54x in H1FY19 (UA) on account of lower interest expenses. The capital structure of the company also remained comfortable with the long term debt to equity and overall gearing ratios improving from 0.11x and 0.35x respectively, as on September 30, 2018 to 0.08x and 0.28x respectively, as on September 30, 2019 on account of accretion of profits to the networth.

Strong liquidity position: The operating cycle of the company remained comfortable at ~20 days as on March 31, 2019 (PY: ~18 days). The average utilization of the cash credit limits also remained comfortable at ~32% for the twelve month period ending November-2019. Further, SIL had Rs.48.97 Cr. of unencumbered cash and liquid investments as on March 31, 2019 and Rs.49.33 Cr. as on December 12, 2019. The company is currently undertaking modernization projects with a total estimated cost of Rs.69.09 Cr. to be undertaken in FY20 and FY21. The total cost is proposed to be funded through term loans of Rs.30 Cr. (already tied-up) and remaining through the internal resources of the company. Further, the company has a small repayment obligation of Rs.4.16 Cr. in FY20 proposed to be met through the internal accruals. Further, with a comfortable gearing ratio of 0.24x as on March 31, 2019, the company also has sufficient headroom to avail the sanctioned debt. Apart from the above mentioned capex, the company has no major capex plans for the next 15-18 months. The unutilized working capital lines and presence of unencumbered liquid investments is expected to provide sufficient support to the liquidity profile of SIL going forward.

***Diversified product profile along with an established distribution network*:** SIL manufactures Writing and Printing Paper (WPP) with a GSM (Grams per square meter) range of 44 to 200 and a brightness range of 75% to 90%. The paper is manufactured in both sheet and reel forms and finds its application in printing of books, note books, calendars, diaries, newspaper supplements, pamphlets, computer stationary, playing cards, brochures, magazines and copier paper, envelope making, etc. SIL has two marketing branches in Delhi and Mumbai along with a network of around fifty dealers all over India. The company sells to government clients (Maharashtra, Rajasthan etc.) where orders are procured on tender basis as well to private players. The company also engages in export of its products to UAE, Nepal, Sri Lanka etc. The income derived from this segment, however, remained low (~1% of the total income in FY19).

Proximity of the manufacturing plants to the raw material sources: Raw materials for SIL include primarily agricultural residue based raw materials such as wheat straw, sarkanda, rice husk etc. The plant is located in an established agricultural belt, viz, Punjab, leading to easy and ample availability of raw materials.

Various cost saving measures implemented: Both the manufacturing units of the company have captive power generation plant through which over ~80% of the total power requirement is met each year. The company has also installed chemical recovery plants which allow recovery of soda ash from the black liquor, the effluent generated in the pulp production process. The sales of soda ash constituted ~9% of the total operating income of SIL in FY19.

Key Rating Weaknesses

Susceptibility of margins to foreign exchange fluctuations: During FY19, the company imported around ~16% of its raw material requirement. The exports, however, stood at a relatively lower level during the year. The company avails forward contracts to counter a part of the forex risk, however, the profitability margins are exposed to any adverse fluctuation in the foreign exchange prices as the exposure is not completely hedged.

Highly competitive nature of the industry with susceptibility of margins to raw material price volatility: The paper industry is highly competitive and fragmented in nature with presence of a large number of players in the organized and unorganized sector and threat from imports. This limits the ability of the manufacturers to pass on the complete increase in the prices of raw material and puts pressure on the profitability margins. SIL majorly uses agro-based raw material which is purchased from the domestic markets. With respect to the agro-based raw materials, there are limitations in their use due to seasonal availability leading to high volatility in their prices. Further, the price of caustic lye (used in the pulp making process) remains volatile throughout the year. Therefore, the operating profitability of the company remains susceptible to any volatility in the raw material prices. Further, owing to slowdown in demand and competitive nature of the industry, the operational performance of the company is expected to witness some moderation in the near future. However, with low debt obligation and sufficient liquidity cushion available, the overall financial risk profile is expected to remain comfortable.

Analytical approach– Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'

CARE's Policy on Default Recognition

[Financial ratios – Non-Financial Sector](#)
[CARE's methodology for manufacturing companies](#)
[CARE's methodology for Short Term Instruments](#)

About the company
Shreyans Industries Limited (SIL) was initially incorporated in 1979 by the name 'Shreyans Paper Mills Limited' by Mr D.K. Oswal and his family members. Subsequently, in October 1992, the company's name was changed to SIL. The company is engaged in the manufacturing of WPP. SIL initially started its operations with an installed capacity of 10,000 metric tonnes per annum (MTPA) at its manufacturing facility in Ahmedgarh, Punjab. In the year 1994, the company purchased the paper division (by the name M/s Zenith Papers) of M/s Zenith Limited, situated in S.B.S Nagar (Punjab). SIL is operating the same by the name, Shree Rishabh Papers. As on March 31, 2018, the company had a combined installed capacity of 94,000 MTPA. SIL's products are being sold primarily in the domestic market under the brand name 'Shreyans'.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (in Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	466.13	575.03
PBILDT	59.35	81.53
PAT	31.18	46.95
Overall gearing (times)	0.39	0.24
Interest coverage (times)	10.60	12.80

A: Audited

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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	37.87	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	21.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	44.00	CARE A2+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	37.87	CARE A-; Stable	-	1)CARE A-; Stable (21-Nov-18)	1)CARE BBB+; Stable (24-Aug-17)	1)CARE BBB (17-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	21.00	CARE A-; Stable	-	1)CARE A-; Stable (21-Nov-18)	1)CARE BBB+; Stable (24-Aug-17)	1)CARE BBB (17-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	44.00	CARE A2+	-	1)CARE A2+ (21-Nov-18)	1)CARE A2 (24-Aug-17)	1)CARE A3+ (17-Oct-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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