Shreyans Industries Limited

August 24, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Ratings Action**
Long-term Bank Facilities	51.34 (reduced from 56.37)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB (Triple B)**
Short-term Bank Facilities	40.00	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Total Facilities	**91.34 (Rupees Ninety One crore and Thirty Four lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Shreyans Industries Limited (SIL) takes into account the improved financial performance of the company in FY17 (refers to the period April 01 to March 31) characterized by increased income, improved profitability margins and overall solvency and liquidity position. The ratings continue to derive strength from the experienced & resourceful promoters, long track record of operations of the company, well-established distribution network, diversified product profile, proximity of the manufacturing plant to raw material sources and various cost-saving measures implemented. The above rating strengths are, however, tempered by the competitive nature of the industry and susceptibility of profitability margins to volatility in raw material prices & foreign exchange fluctuations.

Going forward, the ability of the company to profitably scale-up its operations and maintain its overall solvency position, shall remain the key rating sensitivities. Furthermore, any new capex and funding mix for the same will also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial performance in FY17: The total operating income of SIL increased by ~8% in FY17 on the back of better sales realizations and increased demand from existing as-well-as new customers. The PBILDT and PAT margins improved considerably from 6.39% and 2.22%, respectively, in FY16 to 13.59% and 5.48%, respectively, in FY17, due to the reduced power costs and lower raw material expenses incurred. The gross cash accruals generated also witnessed a healthy ~173% growth in absolute value terms. Despite the addition of term loans to fund the modernization capex undertaken during FY17, the capital structure of SIL, remained comfortable with the long-term debt-to-equity ratio and overall gearing ratio improving from 0.28x and 0.68x, respectively, as on March 31, 2016, to 0.20x and 0.43x, respectively, as on March 31, 2017, on the back of healthy accretion of healthy accretion of profits to the networth. The debt coverage indicators of the company also remained comfortable improving on a year-on-year basis on the back of improved profitability during the year.

Comfortable liquidity position: The liquidity position of the company has also remained comfortable with an operating cycle of ~19 days as on March 31, 2017. The average utilization of the cash credit limits also remained at a comfortable ~19% for the last 12-month period ended June 2017. Furthermore, the company had unencumbered free liquid investments of Rs.17.03 crore as on March 31, 2017.

Experienced and resourceful promoters: 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 half decade. The promoters of the company are resourceful and have

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

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.5.92 crore, as on March 31, 2017.

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.

Established distribution network: SIL has a two marketing branches in Delhi and Mumbai along with a network of around fifty dealers all over India. The company derived ~35% of the total operating income in FY17 from sales to government clients (Maharashtra, West Bengal, Gujarat, etc) where orders are procured on tender basis. The company also engages in export of its products to Nepal, Sri Lanka, etc. The income derived from this segment, however, remained low (Rs.3.29 crore in FY17).

Diversified product profile: 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% as per ISO (International Organization for Standardization). 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.

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, wood pulp, 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 ~75% of the power requirement is met. The company has also installed a chemical recovery plants which allow recovery and reuse of one of the major raw materials (caustic). The process also leads to recovery of soda ash, sales of which constituted ~9% of the total operating income of SIL in FY17.

Key rating weaknesses

Susceptibility of margins to foreign exchange fluctuations: The margins of SIL are vulnerable to adverse fluctuation in the foreign exchange rates, as during FY17, the company imported around 14% of its raw material requirement (amounting to about Rs.31.09 crore). Though the company has availed forward contracts to counter forex risk, the 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. 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.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's policy on default recognition
CARE's methodology for Short Term Instruments

Company Background
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, 2017, the company had a combined installed capacity of 94,000 MTPA as on March 31, 2017). SIL's products are being sold primarily in the domestic market under the brand name 'Shreyans'.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)

Total operating income	180.26	421.64
PBILDT	8.30	57.32
PAT	0.76	23.11
Overall gearing (times)	0.68	0.43
Interest coverage (times)	4.19	9.78

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.*

Analyst Contact
Name: Mr Sudeep Sanwal
Tel: 0172-4904002
Cell: +91 9958043187
Email: sudeep.sanwal@careratings.com

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	October-2023	30.34	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	21.00	CARE BBB+; Stable
Non-fund-based - ST-LC/BG	-	-	-	40.00	CARE A2

Annexure-2: Rating History (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	30.34	CARE BBB+; Stable	-	1)CARE BBB (17-Oct-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB+; Stable	-	1)CARE BBB (17-Oct-16)	-	-
3.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A2	-	1)CARE A3+ (17-Oct-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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