Shreyans Industries Limited

November 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	35.97 (reduced from 51.34)	**CARE A-; Stable [Single A Minus; Outlook: Stable]**	Revised from CARE BBB+; Stable [Triple B Plus; Outlook: Stable]
Short-term Bank Facilities	40.00	**CARE A2+ [A Two Plus]**	Revised from CARE A2 [A Two]
Total Facilities	**75.97 (Rs. Seventy five crore and ninety seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Shreyans Industries Limited (SIL) takes into account the improved operational & financial performance in FY18 (refers to the period April 01 to March 31) and H1FY19 (Unaudited) and the comfortable liquidity position of the company.

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 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.

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

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational & financial performance: The total operating income of SIL increased by ~10% in FY18 on the back of better sales realizations and increased demand from existing as-well-as new customers. Though the PBILDT margin declined from 14.27% in FY17 to 12.73% in FY18, due to increase in the prices of some of the raw materials, the PAT margin improved from 5.93% in FY17 to 6.69% in FY18. The company had incurred a one-time exceptional expense of Rs.9.12 crore during FY17, for the provision created on account of surcharge levied by PSPCL (Punjab State Power Corporation Limited), for the 2004-2009 period.

Despite the addition of term loans to fund the modernization capex undertaken during FY18, the capital structure of SIL, remained comfortable and improved on a year-on-year basis on the back of healthy accretion of healthy accretion of profits to the networth. The debt coverage indicators of the company also remained comfortable and improved on account of higher profitability during the year.

In H1FY19 (Unaudited), the operating income achieved by the company increased by ~16% owing to higher sales quantity and better realizations. The quantity sold increased by ~13% during the period. The PBILDT and PAT margins also improved from 12.45% and 6.48% in FY17 to 13.32% and 6.98%, respectively.

Comfortable liquidity position: The liquidity position of the company has remained comfortable with an operating cycle of ~18 days as on March 31, 2018. The average utilization of the cash credit limits also remained at a comfortable level of ~23% for the 12-month period ended September-2018.

The company had unencumbered cash & liquid investments of Rs22.08. crore, as on March 31, 2018 which further increased to Rs.29.25 crore, as on September 30, 2018. Compared to the total debt outstanding of Rs.46.95 Cr., as on September 30 2018 (Unaudited), SIL had total cash & liquid investments of Rs.64.51 Cr.; with Rs.35.26 Cr. remaining encumbered for the overdraft and non-fund limits availed by the company. On the back of healthy cash accrual generation, SIL pre-paid some part of its term debt obligations in FY18 and FY19. Compared to the total scheduled repayment obligation of Rs.7.75 Cr. in FY19, the company had made a repayment of Rs.9.71 Cr. (including Rs.7.25 Cr. of prepayment), till September 30, 2018. SIL will further make a repayment of Rs.2.88 Cr. in H2FY19. The company's liquidity position is expected to remain comfortable in light of no major capex planned for the next 12-15 months, barring modernization/ debottlenecking capex of Rs.25 Cr. and Rs.15 in FY18 and FY19, respectively, the need for which is projected to be met through the internal accruals generated. Healthy cash accrual generation along with unutilized cash

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

credit limit and presence of unencumbered liquid investments is expected to provide support to the liquidity position of SIL going forward.

Experienced and resourceful 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 (Brother of Mr. Rajneesh), 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 (Brother of Mr. Rajneesh) having an overall experience of around one and a half decade. The promoters of the company are resourceful and 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.6.34 crore, as on March 31, 2018 (Previous Year: Rs.5.92 Cr.).

***Diversified product profile along with 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% as per ISO (International Organization for Standardization). The paper is supplied 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 derived ~24% of the total operating income in FY18 from sales to government clients (Maharashtra, Rajasthan etc.) where orders are procured on tender basis. The company also engages in export of its products to UAE, Nepal, Sri Lanka etc. The income derived from this segment, however, remained low (Rs.13.56 crore in FY18).

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 ~82% of the total power requirement is met. 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 FY18.

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 FY18, the company imported around ~13% of its raw material requirement (amounting to about Rs.30.73 crore). The exports stood at a relatively lower level in FY18. Though the company avails 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 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.

Analytical approach: Standalone

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

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'.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	423.58	466.13
PBILDT	60.43	59.35
PAT	25.11	31.18
Overall gearing (times)	0.42	0.35
Interest coverage (times)	10.22	10.60

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

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	-	-	October-2023	16.57	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	19.40	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	40.00	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 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	16.57	CARE A-; Stable	-	1)CARE BBB+; Stable (24-Aug-17)	1)CARE BBB (17-Oct-16)	-
2.	Fund-based - LT-Cash Credit	LT	19.40	CARE A-; Stable	-	1)CARE BBB+; Stable (24-Aug-17)	1)CARE BBB (17-Oct-16)	-
3.	Non-fund-based - ST-BG/LC	ST	40.00	CARE A2+	-	1)CARE A2 (24-Aug-17)	1)CARE A3+ (17-Oct-16)	-

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