



## Press Release

### Sivadharshini Papers Private Limited (SPPL)

January 22, 2024

#### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities – Term Loan	40.79 (reduced from 43.19)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Revised	Simple
Long Term Bank Facilities – Cash Credit	22.50 (Increased from 15.00)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Revised	Simple
Long Term Fund Based Facilities- Term Loan (Proposed)	2.50	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Assigned	Simple
<b>Total</b>	<b>Rs. 65.79 Cr (Rupees Sixty-Five Crore and Seventy-Nine Lakhs Only)</b>			

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

Revision in the rating outlook reflects moderation in the capital structure in FY23 on account of debt funded capex and muted financial performance in H1FY24.

Furthermore, the rating reaffirmation/assignment to the bank facilities of Sivadharshini Papers Private Limited (SPPL) continues to factor in the experience of promoters in the paper industry, satisfactory capacity utilization with enhanced capacity, strategic location of plant and range bound revenue.

However, these strengths are partially offset by product concentration risk and fragmented industry structure with stiff competition, cyclical in Paper Industry, volatility associated with fluctuation in raw material prices and foreign exchange rates.

#### Key Rating Sensitivities:



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### Upward Factors

- Substantial & sustained growth in revenue and/or EBITDA margin leading to improvement in debt protection metrics & capital structure.

### Downward Factors

- Any decline in revenues and/or EBITDA margin leading to deterioration of debt protection metrics or any decline in average realizations.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Long experience of the promoters in paper industry**

Mr. K Ganesan is a diploma holder in electrical and electronics engineering having more than two decades of experience in designing, erecting, and maintaining utility & energy equipment for various paper units. He is the managing director of the Company and involves in the technical and strategic decision making. Mrs. K Malarvizhi is the whole-time director of the Company and has more than two decades of experience in the industry. She is involved in the day-to-day operations, administration, and finance of the Company.

##### **Satisfactory capacity utilization; expected enhancement in installed capacity.**

The capacity utilization of the company remains satisfactory during the period FY21-FY23, and the average utilization is ~88% on the installed capacity of 120 tons/day. The satisfactory utilization is due to healthy demand scenario for the packaging paper products in the market. The capacity utilization dipped in FY21 due to covid induced restrictive business environment. Further post the capex, the installed capacity was enhanced to 160 tons/day.

##### **Strategic location of the plant**

The manufacturing facility of the company is in Madathukulam, Coimbatore which is in close proximity to raw material sources. The main raw material is waste kraft paper and the same is primarily being procured from Tirupur, Coimbatore, Erode and Sivakasi. These places are located within 150 KM radius from the unit. Further, location has a good rail, road and port connectivity for transporting raw material and finished good. NH 209 Kovai – Dindigul highway, which is at 10 KM from the unit, connects the major cities of the southern part of the country and thus providing easy access to markets. The big industrial city – Coimbatore is 80 KM away from the unit. Tuticorin port is 350 KM away from the unit's location. Hence, proximity of raw



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material sources and good connectivity provides a competitive edge to the Company which reduces business risk to some extent.

### **Range bound revenue.**

The scale of operations of the company remained modest in the last three years marked by operating income around Rs.100 crore in the last two years. With the enhanced capacity utilization and increasing demand for the kraft paper, the Company has achieved an operating income of Rs. 95.65 Cr in FY23. Total operating income stands at Rs 53.10 Cr in H1FY24.

### **Key Rating Weaknesses**

#### **Product concentration risk and fragmented industry structure with stiff competition**

The Company's product portfolio is limited to kraft paper and thus, revenue is exposed to product concentration risk. Further, the Kraft paper industry is highly fragmented with stiff competition from numerous organised as well as unorganised players. However, the same is mitigated to an extent with the increasing online purchase of consumer which has, in turn, increased the demand for packaging materials and thus, supported the revenue scale of the Company. Further, with strategic capex for manufacturing paper with higher GSM range may reduce the degree of competition to an extent as it is used for industrial packaging and has an advantage of bringing in niche customers.

#### **Cyclicality in Paper Industry**

The paper industry is highly cyclical in nature and depends on general economic conditions as well as the industry demand and supply.

#### **Volatility associated with fluctuation in raw material prices and foreign exchange rates.**

Waste kraft paper is the major raw material. Thus, the average realisations are dependent on wastepaper prices. Hence, the company's profitability remains exposed to volatility in wastepaper prices and its ability to pass on any rise in prices to the customers. Further, import of wastepaper constituted around 33% of its total purchases. Thus, its margin remains vulnerable to any adverse fluctuations in foreign exchange. However, the risk is partly mitigated by the natural hedge through exports.

**Analytical Approach:** Standalone

**Applicable Criteria:**



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[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria of assigning Rating Outlook](#)

### **Liquidity – Adequate**

The Company has adequate liquidity as reflected by its average working capital utilization of ~93% in 12 months. Cash accruals have improved from Rs 4.82 Cr in FY20 to Rs. 4.86 Cr in FY23. Coverage indicators stood adequate with ISCR of 2.47 times and DSCR of 1.71 times in FY23. Recent enhancement in fund-based working capital limits to Rs. 22.50 crore from Rs. 15.00 crore is expected to support its liquidity position. The company has ballooning repayment obligations for its long-term borrowings from bank, which is expected to be adequately covered by cash accruals, given the expected enhanced productivity post capex.

### **About the Company**

Sivadharshini Papers Private Limited, incorporated in November 2008, is a closely held company and engaged in manufacturing of kraft paper (Bursting Factor: 12-22, Grams per Square Meter: 100 to 180) in Coimbatore, Tamil Nadu. The company has manufacturing facility in Madathukulam, Coimbatore with present installed capacity of 160 tons per day. The company is managed by two directors, Mr. K Ganeshan, and Mrs. K Malarvizhi, having experience of more than two decade in the industry. The technical and strategic affairs in terms of production is looked after by the Managing Director Mr. K Ganeshan, and Finance & Administration is being managed by Mrs. K Malarvizhi.

### **Financials (Standalone):**

For the year ended* / As on	INR in Crores	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	115.42	95.65
EBITDA	6.98	8.22
PAT	2.71	1.38
Total Debt	24.53	64.96
Tangible Net worth	19.54	20.80
EBIDTA Margin (%)	6.05	8.59
PAT Margin (%)	2.34	1.44



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Overall Gearing ratio (X)	1.26	3.12
DSCR (x)	2.59	1.71

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA: N.A.**

**Any other information: N.A.**

**Rating History for last three years:**

Sr. No.	Name of Instrument/ Facility	Current Rating (Year: 2023-24)					Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (PR dated July 21, 2023)	Date(s) & Rating(s) assigned in 2023-24 (PR dated June 01, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (PR dated Mar 26, 2022)	Date & Rating assigned in 2020-21
1.	Fund Based Facilities-Term Loan	Long Term	40.79	IVR BBB-/Negative	IVR BBB-/Stable	IVR BB+/ISSUER NOT COOPERATING/Stable	-	IVR BBB-/Stable	-
2.	Fund Based Facilities-Cash credit	Long Term	22.50	IVR BBB-/Negative	IVR BBB-/Stable	IVR BB+/ISSUER NOT COOPERATING/Stable	-	IVR BBB-/Stable	-
3.	Fund Based Facilities-Term Loan (Proposed)	Long Term	2.50	IVR BBB-/Negative	-	-	-	-	-
<b>Total</b>			<b>65.79</b>						

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	2034	20.44	IVR BBB-/ Negative



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Term Loan I	-	-	2030	3.51	IVR BBB-/ Negative
Term Loan II	-	-	2030	15.27	IVR BBB-/ Negative
Cash Credit	-	-	Revolving	22.50	IVR BBB-/ Negative
GECL I	-	-	2024	0.45	IVR BBB-/ Negative
GECL II	-	-	2026	1.12	IVR BBB-/ Negative
Term Loan (Proposed)	-	-	-	2.50	IVR BBB-/ Negative

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/len-Sivadharshini-jan24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).