



## Press Release

### Sivadharshini Papers Private Limited

**March 26, 2022**

#### **Ratings**

<b>Facility</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>	<b>Complexity Indicator</b>
Long Term Fund Based Facilities Term Loan (Sanctioned)	4.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facilities Term Loan (Proposed)	15.75	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facilities GECL I (Sanctioned)	1.93	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facilities GECL II (Sanctioned)	1.23	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facilities Cash Credit (Sanctioned)	9.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Long Term Fund Based Facilities Cash Credit (Proposed)	5.50	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
<b>Total</b>	<b>38.41 (Thirty-Eight Crores and Forty-One Lakhs Only)</b>			

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The ratings assigned to the bank facilities of Sivadharshini Papers Private Limited ('SPPL' of 'the Company') factors in the long-standing experience of the promoters in the paper industry, improved revenue scale, strategic location of the plant, and favourable demand outlook for the kraft paper. Operating performance of the Company was negatively impacted during FY20 and FY21 (from Rs. 70.33 Cr in FY19 to Rs. 62.80 Cr in FY20 and Rs. 65.43 in FY21) due to



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reduced average sales realisation in FY20 and reduced production volume in FY21 on account of Covid-19 induced restrictions. Upon normalization, the Company registered revenue growth during FY22 business operations (Rs. 96.54 Cr in 10MFY22), driven by retention of production volume and increased prices of Kraft Paper amid increased demand for kraft paper from packaging industry resulting in improved sales realisation. The rating also factors in the capacity utilization level of the Company which has been satisfactory in the last three financials years and has improved further in the current fiscal. Infomerics notes that the Company is at an intermediate stage of completing its ongoing capacity expansion (120 tons per day to 160 tons per day) and plant modernization capex with commissioning scheduled from August 2022. With enhancement in installed capacity, the revenue scale is expected to grow further with the increase in overall production. The ability of the Company to timely complete its capex and achieve its projected financials thereon, will remain a key monitorable.

The ratings, however, are constrained by the vulnerability of profit margins to volatility in raw material prices and foreign exchange fluctuation, increase in long term debt servicing obligations in view of ongoing debt funded capex, exposure of revenue to product concentration risk, and the Company's presence in highly fragmented and competitive industry. The company remains exposed to the volatility in prices of key raw materials - waste kraft paper, particularly to the extent of inventory held. Operating profit margin has witnessed decline in profit margins in 10MFY22 business operations primarily due to increase in raw material prices. The ability of the Company to pass on the increased raw material costs to the customers, will remain a key determinant of its profitability in near term.

### **Key Rating Sensitivities:**

#### **Upward Factors**

- Sustained growth in revenue while retaining the operating profit margin, resulting in higher net cash accruals and improved debt coverage indicators.
- Scale up of operations as per the enhanced capacity.
- Specific credit metrics for rating upgrade include operating margin of above 10% and DSCR of more than 2X on a sustained basis.

#### **Downward Factors**

- Significant decline in revenues and profitability or any decline in average realisations.
- Any delay in commencing the scheduled commercial production with respect to the ongoing capex, impacting the overall financial risk profile.
- Delays in receiving payments from customers resulting in stretched working capital cycle would be sensitive to the liquidity profile and any deterioration in the same would be a negative trigger.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **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 FY19-10MFY22, and the average utilization is ~87% 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 with the ongoing capex, the installed capacity is expected to be 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 well-known industrial city – Coimbatore, is 80 KM away from the unit. Tuticorin port is 350 KM away from the unit's location. Hence, proximity to raw material sources and good connectivity provides a competitive edge to the Company which reduces business risk to some extent.

##### **Improving revenue scale**

The scale of operations of the company remained modest in the last three years marked by operating income in the range of Rs.60-70 crore during FY19 - FY21. However, with the improved capacity utilization and increasing demand for the kraft paper, the Company has achieved an operating income of Rs. 96.54 Cr in 10MFY22.

##### **Average financial risk profile**

The financial risk profile of the Company stood average with satisfactory tangible net worth of Rs. 16.88 Cr as of 31 March 2021, comfortable gearing of 0.87 times as of 31 March 2021, adequate coverage indicators with ISCR of 5.60 times and DSCR of 1.66 times in FY21 and improved profit margins with operating margin of 11.59% and net profit margin of 4.65%.



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### Key Rating Weaknesses

#### **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.

#### **Increased long term debt obligation:**

The Company is currently undertaking debt-funded capex to further enhance its installed capacity. The said capex is to be partly funded by a term loan. The increased term debt along with increased working capital requirement for the expanded operations is likely to exert pressure on the liquidity position of the Company.

#### **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 organized as well as unorganized 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.

**Analytical Approach:** Standalone

**Applicable Criteria (Please add Hyperlink to the respective criteria):**

[Rating Methodology for Manufacturing Companies](#)

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

### **Liquidity – Adequate**

The Company has adequate liquidity. Cash accruals have improved from Rs 4.82 Cr in FY20 to Rs. 5.04 Cr in FY21. Coverage indicators stood adequate with ISCR of 5.60 times and DSCR of 1.66 times in FY21. The free cash and cash equivalents as on January 31, 2021, stood at 0.36 Cr. Operating cycle stood stretched at 73 days as of 31 March 2021. Its average working capital utilization of ~100% in the past 11 months. Recent enhancement in fund-based working capital limits to Rs. 15.00 crore from Rs. 9.50 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 under the ongoing capex.



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### 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 120 tons per day. The company is managed by two directors, Mr. K Ganesan 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 Ganesan, and Finance & Administration is being managed by Mrs. K Malarvizhi.

### Financials (Standalone):

INR in Crores

For the year ended* / As on	31-03-2019	31-03-2020	31-03-2021
	Audited	Audited	Audited
Total Operating Income	70.33	62.8	65.43
EBITDA	6.26	6.19	7.58
PAT	1.78	2.91	3.05
Total Debt	13.23	11.86	11.94
Tangible Net worth (Adjusted)	11.4	15.07	19.58
EBIDTA Margin (%)	8.89	9.86	11.59
PAT Margin (%)	2.53	4.63	4.65
Overall Gearing ratio (X) (Adjusted)	1.16	0.79	0.61
Total Debt	13.23	11.86	11.94

\*Classification as per infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: N.A.

### Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding /Proposed (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan (Sanctioned)	Long Term	4.50	IVR BBB-/Stable	-	-	-





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2.	Term Loan (Proposed)	Long Term	15.75	IVR BBB-/Stable	-	-	-
3.	GECL I (Sanctioned)	Long Term	1.93	IVR BBB-/Stable	-	-	-
4.	GECL II (Sanctioned)	Long Term	1.23	IVR BBB-/Stable	-	-	-
5.	Cash Credit (Sanctioned)	Long Term	9.50	IVR BBB-/Stable	-	-	-
6.	Cash Credit (Proposed)	Long Term	5.50	IVR BBB-/Stable	-	-	-

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Long Term Fund Based Facilities Term Loan (Sanctioned)	-	-	Nov 2029	4.50	IVR BBB-/Stable
Long Term Fund Based Facilities Term Loan (Proposed)	-	-	-	15.75	IVR BBB-/Stable
Long Term Fund Based Facilities GECL I (Sanctioned)	-	-	Jun 2024	1.93	IVR BBB-/Stable
Long Term Fund Based Facilities GECL II (Sanctioned)	-	-	Nov 2025	1.23	IVR BBB-/Stable
Long Term Fund Based Facilities Cash Credit (Sanctioned)	-	-	-	9.50	IVR BBB-/Stable
Long Term Fund Based Facilities Cash Credit (Proposed)	-	-	-	5.50	IVR BBB-/Stable

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

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Sivadharshini-lenders-mar22.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).