Sardhana Papers Private Limited

May 26, 2025

Ratings

Instrument/ Facilities	Amount (INR crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	47.08 (Reduced from Rs. 47.70 crore)	IVR BB+/ Stable and Withdrawn (IVR Double B plus with stable outlook and simultaneously Withdrawn)	IVR BB/ Negative; ISSUER NOT COOPERATNG (IVR Double B with negative outlook under ISSUER NOT COOPERATING Category)	Rating removed from ISSUER NOT COOPERATING category, rating upgraded, outlook revised and simultaneously Withdrawn	Simple
Total	**47.08 (Rs. Forty-Seven Crore and Eight Lakh Only)**				

Details of Facilities/ instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has removed the ratings assigned to the bank facilities of Sardhana Papers Private Limited (SPPL) from Issuer Not Cooperating category based on adequate information received from the company to review its ratings.

The rating derive strength from its long track of operations in paper industry under experienced promoter, stable business performance, comfortable capital structure with satisfactory debt protection metrics and positive outlook for paper industry. However, these rating strengths remain constrained due to moderate scale of operation with thin profitability, product concentration risk and fragmented industry structure with stiff competition, exposure to project risk and cyclicality inherent in the paper industry.

The stable outlook reflects that the company will continue to benefit from extensive experience of promoters in paper industry and growing demand of kraft paper in domestic market.

Infomerics Ratings has simultaneously withdrawn the rating assigned to the bank facilities of SPPL with immediate effect. The above action has been taken at the request of the company along with No Objection Certificate (NOC) issued by Punjab National Bank. The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

Key Rating Sensitivities:

- **Upward Factors**

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Sustainable capital structure with overall gearing reaming below 2x and improvement in interest coverage ratio to over 3x
- Timely and proper execution of planned capacity enhancement capex

- **Downward Factors**

- Significant decline in revenues and profitability leading to moderation in GCA impacting the debt protection metrics
- Withdrawal of subordinated unsecured loans and/or any unplanned capex leading to impairment in the capital structure with moderation in overall gearing to over 3x and interest coverage below 2x
- Increase in operating cycle impacting liquidity

List of key rating driver with detailed description

Key rating strengths:

- **Long track of operations in paper industry under experienced promoters**

SPPL was established in 1985 and has a long track of operation of more than three decades in Kraft paper manufacturing. The company is presently managed by Shri Saurabh Gupta one of the Director, who has extensive experience and established track record in this industry. The promoters have established healthy customer and suppliers relations over the years. Further, the promoters are resourceful and has extended support to the company in the form of unsecured loans as and when required in the past.

- **Stable business performance**

Total operating income (TOI) of the company remained erratic due to price fluctuations over the past three fiscal years, it has remained in range of ~Rs.99 crores to Rs.113 crore. Despite increase in sales volume, the total operating income had reduced from Rs.111.04 crore in FY23 [FY refers to the period from April 1 to March 31] Rs.99.65 crore in FY24 due to dip in average sales realisations. However, the TOI has improved to Rs.112.46 crore in FY25(Prov.) despite lower sales volume. The operating margin improved from 4.31% in FY23 to 4.75% in FY24 due to lower raw material consumption cost. The same declined marginally to 4.32% in FY25(Prov.). However, the absolute EBITDA improved by ~2.56% in FY25(Prov.) with increase in TOI, the PAT margin has improved gradually from 0.95% in FY23 to 1.17% in FY24 and further to 1.75% in FY25(Prov.).

- **Comfortable capital structure with satisfactory debt protection matrices**

  The capital structure mainly consists of term loans and cash credit. The company has a tangible net worth of Rs.39.67 crore (including unsecured loan considered as quasi equity of Rs. 10.83 crore) adjusted for long pending debtors. The capital structure of the company, though remained comfortable, witnessed moderation in FY24 and subsequently in FY25 (Prov.) due to elevated debt levels owing to increase in term loan to fund the ongoing capex. Consequently, the overall gearing moderated from 0.59x as on March 31, 2023, to 0.78x as on March 31, 2024. The same further moderated to 1.45x as on March 31, 2025 (Provisional). The TOL/TNW has also moderated to 1.78x as on March 31, 2025 (Provisional) from 1.20x as on March 31, 2024. Though interest coverage has remained comfortable, it has moderated in line with absolute EBITDA to 2.59x in FY24 from 2.67x in FY23 and thereafter improved to 4.96x in FY25(P). Furthermore, Total debt/GCA and Total debt /EBITDA both remained moderated at 16.65 years and 11.87x respectively as on March 31, 2025 (Provisional).

- **Positive outlook for Paper industry**

  The kraft papers are mainly used in packaging sector. The kraft paper industry in India is expected to witness a significant growth in future as the government of India has started putting nationwide curbs on use of single use plastic and endorsed many awareness programs on less usage of plastic, which will indirectly push demand for the kraft paper manufacturing industries. Also, changing consumer preferences towards convenient packaging solutions along with sustainability in mind will diminish the demand for plastic packaging and hence fuel the paper and paperboard industry.

Key Rating Weaknesses

- **Moderate scale of operation with thin profitability**

  Profitability of SPPL has been on a lower side historically. Notwithstanding, to the moderation in the topline in FY24, driven by reduced raw material cost, the operating margin of the company has remained thin in the range of ~4.30% to ~4.75% in the last three fiscals. Though the PAT margin has improved consistently, it remained thin at 1.75% in FY25(Prov.). However, the Gross Cash Accruals have also improved from Rs. 2.98 crore in FY23 to Rs.3.06 crore in FY24 and Rs.3.46 crore in FY25 (Prov.).

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

Press Release

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. Further, owing to low entry barriers and limited product differentiation, leading to limited pricing power. The highly fragmented and competitive nature of the industry may impact the profitability of the players.

- **Project Risk**

  SPPL is going through a majorly debt funded capex which is expected to enhance the production capacity of the plant from 100 MT per day to 150 MT per day. The reason for capex is to the improve the yield & reduce cost of production, thereby improving overall profitability of the company. The company has witnessed cost overrun in its project. As per CA Certificate SPPL has invested a sum of Rs.40.42 crore up to 24.04.2025 against a total estimated project cost of Rs.38.40 crore for installation of new plant and machinery which has been financed by term loan of Rs.30.00 crore and promoters' contribution & internal accruals of Rs.10.42 crore in a debt equity ratio of 2.88x. The excess cost is to be financed by the promoters.

- **Cyclicality inherent in the paper industry**

  The Indian paper industry is small as compared to the global scale and domestic paper prices are largely determined by the international trends. Hence, global demand-supply balance impacts the price trend of the domestic industry. The key raw material used by the company is wastepaper. 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Policy on withdrawal of ratings

Liquidity- Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate gross cash accruals in the range of ~Rs.36.39-~Rs.37.38 crore as against its debt repayment obligations in the range of ~Rs.1.39 to ~Rs.6.68 crore during FY26-FY28. The company had earned a cash accrual of Rs.3.46 crore in FY25(Prov.). The current ratio also stood satisfactory at 2.00x as on March 31, 2025(Prov.). The average CC utilisation for past 12 months ended April 2025 remains low and comfortable at ~30%, which imparts adequate liquidity buffer.

About the Company

Sardhana Papers Private Limited (SPPL) was incorporated in March 1985 in Meerut, Uttar Pradesh and the company has been into the business of Manufacturing of Kraft Paper since 1987. The plant has an installed capacity of 36,000 TPA. The company was promoted by promoted by Mr Neeraj Gupta, Mr Manoj Kumar Gupta and Mr Saurabh Gupta. The promoters are having more than three decades of experience in the industry has helped SPPL to establish healthy relationship with its suppliers and customers.

Financials (Standalone):

(Rs. crore)

For the year ended*/ as on	31-03-2024	31-03-2025
	Audited	Provisional
Total Operating Income	99.65	112.46
EBITDA	4.73	4.86
PAT	1.17	1.97
Total Debt	23.66	57.62
Tangible Net Worth	18.20	29.55
Adjusted Tangible Net Worth	30.37	39.67
EBITDA Margin (%)	4.75	4.32
PAT Margin (%)	1.17	1.75
Overall Gearing Ratio (x)	0.78	1.45
Interest Coverage Ratio (x)	2.59	4.96

**Classification as per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2025-2026)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23
					Oct 01, 2024	Sept 08, 2023	
1	Term Loan	Long Term	33.08	IVR BB+/ Stable and Withdrawn	IVR BB/ Negative; ISSUER NOT COOPERATING*	IVR BB+; Stable	-
2	Cash Credit	Long Term	14.00	IVR BB+/ Stable and Withdrawn	IVR BB/ Negative; ISSUER NOT COOPERATING*	IVR BB+; Stable	-

*** Issuer did not cooperate; based on best available information**

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	ISIN	Date of Issuance	Coupon Rate	Tenor/ Maturity	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	March 2032	33.08	IVR BB+/ Stable and Withdrawn
Cash Credit	-	-	-	-	14.00	IVR BB+/ Stable and Withdrawn

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-sardhana-may25.pdf

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

Annexure 4: List of companies considered for consolidated/ combined analysis: 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.