



Press Release

Sardhana Papers Private Limited

September 08, 2023

Ratings

Facility	Amount (Rs. Crore)	Rating	Rating Action	Complexity Indicator
Long-Term Bank Facilities	47.70	IVR BB+; Stable (IVR Double B Plus with Stable outlook)	Assigned	Simple
Total	47.70 (INR Forty-Seven Crore and Seventy Lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sardhana Papers Private Limited (SPPL) derives strength from its long track record of operation under experienced promoters and positive outlook for paper industry. Further, the ratings also considered improved business performance of the company in FY23 with comfortable capital structure and satisfactory debt protection metrics. However, these rating strengths remain partially offset by its thin profitability, product concentration risk and fragmented industry structure with stiff competition, exposure to project risk coupled with cyclical nature inherent in the paper industry.

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 remaining 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.
- Impairment in the capital structure with moderation in overall gearing to over 3x and interest coverage below 2x



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- Increase in operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters with long track of operations in paper industry**

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.

- **Improvement in scale of operation**

The total operating Income of SPPL has witnessed a growing trend over the past few years as the topline has moved from Rs.67.40 crore in FY20 to Rs. 77.84 crore in FY21 which improved further to Rs.117.83 crore in FY22 despite affected by the Covid 19 pandemic. The growth in scale of operation was mainly driven by increase in demand of kraft papers in domestic use as an alternative of plastic along with better sales realisation. In FY23, the sales volume has increased. However, partly affected by lower sales realisation, the topline was marginally moderated to Rs. 111.04 crore. Gross cash accruals of SPPL has also improved to Rs.2.98 crore in FY23 from Rs.2.61 crore in FY22. During the first four months of FY24, SPPL has managed to churn out revenue of ~Rs.31.63 crore.

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

The capital structure of the company had remained comfortable owing to its small net worth base which stood at Rs.17.03 crore as on March 31, 2023. Further, taking the support of subordinate unsecured loans from the promoters amounting to Rs. 9.07 crore, the Adjusted net worth position has improved to Rs. 26.09 crore leading to a comfortable overall gearing of 0.58x as on March 31, 2023, as compared to 1.32x as on March 31, 2022. Overall indebtedness marked by TOL/ATNW also stood comfortable at 1.23x as on March 31, 2023 (2.62x as on March 31, 2022). The capital structure of SPPL is expected to moderate a bit in FY24 owing to the planned debt funded capacity enhancement capex of Rs.30 crore. Despite increase in finance cost in FY23, backed by improved absolute EBITDA, debt protection matrices marked by interest coverage have improved and stood at 2.67x in FY23 against 2.55x of FY22. Total Debt to EBITDA and Total debt to GCA have also improved and



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stood at 3.14x and 5.04 years respectively as on March 31, 2023, against 5.27x and 8.08 years as on March 31, 2022.

- **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 programmes 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:

- **Thin Profitability**

Profitability of SPPL has been on a lower side historically. Notwithstanding, to the moderation in the topline in FY23, driven by reduced raw material cost, the operating margin of the company has improved marked by EBITDA margin of 4.31% against 3.40% in FY22. PAT margin has moved in tandem and improved to 0.95% in FY23 against 0.80% of FY22.

- **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. 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 improve the yield & reduce cost of production, thereby improving overall profitability of the company. However, the capex is in the initial stage and its timely completion and implementation is going to be one of the major rating factors to monitor.

- **Cyclical nature 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



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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 of assigning rating outlook](#)

Liquidity: Adequate

The liquidity position of the company is expected to be adequate marked by expected adequate gross cash accruals in the range of ~Rs.3.46-11.56 crore during FY24-FY26 which is expected to be sufficient to meet its debt obligations ranging from ~Rs.1.55 crore-4.36 crore. Further, the average working capital utilization of the company remained moderate at ~74% for last 12 months ended June 30, 2023 indicating a moderate liquidity buffer. In addition, SPPL has strong support from promoters providing it additional liquidity cushion.

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 of Sardhana Papers Private Limited (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	117.83	111.04
EBITDA	4.00	4.79
PAT	0.94	1.05
Total Debt	21.10	15.03



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Tangible Net worth	15.97	17.03
Tangible Net worth including Quasi	15.97	26.09
EBITDA Margin (%)	3.40	4.31
PAT Margin (%)	0.80	0.95
Overall Gearing Ratio Adjusted (x)	1.32	0.58
Interest Coverage	2.55	2.67

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan I	Long Term	3.70	IVR BB+/Stable	-	-	-
2.	Term Loan II	Long Term	30.00	IVR BB+/Stable	-	-	-
3.	Cash Credit	Long Term	14.00	IVR BB+/Stable	-	-	-

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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).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Term Laon I	-	-	Mar 2032	30.00	IVR BB+/ Stable
Long Term Fund Based Limits –Term Laon II			Feb 2028	3.70	IVR BB+/ Stable
Long Term Fund Based Limits –Cash Credit	-	-	-	14.00	IVR BB+/ Stable

Annexure 2: Facility wise lender details: [As per attached annexure](#)

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/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