



Press Release

Sivadharshini Papers Private Limited

July 21, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	43.19	IVR BBB-/ Stable (IVR Triple B Minus/ Stable Outlook)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
Long Term Bank Facilities – Cash Credit	15.00	IVR BBB-/ Stable (IVR Triple B Minus/ Stable Outlook)	Revised & Removed from ISSUER NOT COOPERATING Category	Simple
	Rs. 58.19 Cr (Rupees Fifty-Eight Crores and Nineteen Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating was migrated to ISSUER NOT COOPEARTING category as Sivadharshini Papers Private Limited had not submitted all the required information for surveillance under the stipulated timelines. Subsequently, SPPL has cooperated and provided the information leading to removal of the rating from ISSUER NOT COOPEARTING category. The revision in the long-term rating of the bank facilities of SPPL reflects improvement in the overall financial performance in FY22 and FY23 (Prov).

Furthermore, the aforesaid rating continues to derive strength from the experience of the promoters, satisfactory capacity utilization, strategic location of the plant and improving revenue scale. However, these strengths are partially offset by product concentration risk and fragmented industry structure with stiff competition, cyclicity in Paper Industry, volatility associated with fluctuation in raw material prices and foreign exchange rates.



Press Release

Key Rating Sensitivities:

Upward Factors

- Sustained growth in revenue and sustained operating margin resulting in higher net cash accruals.
- Scale up of operations for the enhanced capacity,
- Specific credit metrics for rating upgrade include DSCR of 2X on a sustained basis.

Downward Factors

- Significant decline in revenues and profitability or any decline in average realizations.
- 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 a stretched working capital cycle would be sensitive to the liquidity profile and any deterioration in the same would be a negative trigger.

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 FY19-FY23, 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.



Press Release

The capacity utilization dipped in FY21 due to covid induced restrictive business environment. Further post the 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 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 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 in the last three years. However, with the enhanced capacity utilization and increasing demand for the kraft paper, the Company has achieved an operating income of Rs. 95.22 Cr in FY23.

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.



Press Release

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:

[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 ~92% in 12 months. Cash accruals have improved from Rs 4.82 Cr in FY20 to Rs. 5.53 Cr in FY23 (P). Coverage indicators stood adequate with ISCR of 1.96 times and DSCR of 1.84 times in FY23 (P). 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 present capex.

About the Company



Press Release

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	Provisional
Total Operating Income	115.42	95.22
EBITDA	6.98	6.61
PAT	2.71	2.89
Total Debt	24.53	64.92
Tangible Net worth (Adjusted)	21.49	21.89
EBIDTA Margin (%)	6.05	6.94
PAT Margin (%)	2.34	2.95
Overall Gearing ratio (X) (Adjusted)	1.26	2.97
DSCR (x)	2.59	1.84

**Classification as per infomerics' standards*

Status of non-cooperation with previous CRA: NA

Any other information: N.A.

Rating History for last three years:



Press Release

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 June 01, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22 (March 23, 2022)	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based Facilities-Term Loan	Long Term	43.19	IVR BBB-/ Stable	IVR BB+/ ISSUER NOT COOPERATING/ Stable	-	IVR BBB-/ Stable	-
2.	Fund Based Facilities-Cash credit	Long Term	15.00	IVR BBB-/ Stable	IVR BB+/ ISSUER NOT COOPERATING/ Stable	-	IVR BBB-/ Stable	
Total			58.19					

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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



Press Release

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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 Loans	-	-	-	43.19	IVR BBB-/Stable
Long Term Fund Based Facilities Cash Credit	-	-	-	15.00	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/len-sivadharshini-jul23.pdf>

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



Press Release

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.

