

Press Release

Shah Paper Mills Limited

January 06, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) to the Rs.100.00 Cr. bank facilities of Shah Paper Mills Limited (SPML). The outlook is **'Stable'**.

Reason for rating assigned

The rating assigned takes into consideration the established track record of operations of the company in the manufacturing of paper segment along with its stable operating performance in the last three years, marked by improvement in operating income albeit fluctuating operating margins. The Company's operating income grew at a compounded annual growth rate of ~12% as it recorded revenues of Rs.963.87 crore in FY2022 as against revenue of Rs.584.54 crore in FY2021. The growth in FY2022 is driven by the increase in demand as well as the price realization of the products. The Group's revenue stood at Rs. 543.94 crore in H1FY23. The rating also draw comfort from the moderate financial risk profile of SPML. However, the working capital intensive operations and the susceptibility of profit margins to fluctuations in raw material prices imbibe a negative bias to the rating. Going forward, SPML's ability to maintain its profitability margins while improving its scale of operations and restricting the further elongation in its working capital cycle, will remain a key rating monitorable.

About the Company

Shah Paper Mills Limited (SPML) was incorporated as a private limited company in 1990 (under the name of Shah Paper Mills Private Limited). The company was reconstituted as a public limited company in 1994 and is currently engaged in manufacturing of writing/printing paper and newsprint in addition to kraft paper in their plants located in Vapi, Gujarat. The company has 3 facilities in Vapi. The current directors of the company are Mr Mahendra Hirji Shah, Mr Ashok Zaverchand Shah, Mr Pritesh Mahendra Shah, Mr Girish Sarvotham Shetty, Mr Arvind Kumar, Ms Poonam Bharat Chauhan and Mr Parsottam Chhaganbhai Konkani.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of SPML to arrive at

the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

Shah Paper Mills Limited was incorporated in 1990, reflecting established track record of operations of more than three decades. The company is promoted by Mr. Mahendra Shah, who has an experience of more than 35 years in the said line of business. The day-to-day operations of the company are managed by the promoter along with experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters has helped the company to established long and healthy relationships with its customers and suppliers over the years. Acuité believes that the company will continue to benefit from its experienced management and long track record of operations over the medium term.

Stable operating performance, albeit fluctuating profitability margins

The Company's operating income grew at a compounded annual growth rate of ~12% as it recorded revenues of Rs.963.87 crore in FY2022 as against revenue of Rs.584.54 crore in FY2021 and Rs. 773.33 crore in FY2020. The growth in FY2022 is driven by the increase in demand as well as the price realization of the products. Further, the revenue of the company stood at Rs.716 crore till November 2022. The Company's revenues are expected to improve in the medium term on account of the capital expenditure incurred to improve the quality of the paper. The capex is completed in November, 2022 and will aid the Company in manufacturing higher value added products which will aid it in improving its margins. The operating profit margin declined and stood at 3.25 percent in FY2022 compared to 6.97 percent in FY2021 as against 7.74 percent in FY2020. The decline in the operating margin in FY2022 is majorly on account of the increase in the raw material prices i.e., wastepaper prices and coal prices. As per the various industry reports, paper price jumped from Rs 39,000-46,000 per Metric Tonne (MT) (plus 12% GST) in March 2021 to Rs 75,000 per MT (plus 12% GST) in March 2022. However, the operating margin recovered and stood at 7.61 percent till September 2022 as the company was able to pass on the increased prices to majority of its customers during this period. The PAT margins stood at 0.53 percent in FY2022 from 1.20 percent in FY2021 as against 3.88 percent in FY2020. Acuité believes that the revenues of the company will continue to improve on account of the capital expenditure done by the company.

Moderate financial risk profile

The company's financial risk profile is moderate marked by moderate network, moderate gearing and comfortable debt protection metrics. The tangible net worth of the company stood at Rs.133.61 crore as on 31 March 2022 as against Rs.126.90 crore as on 31 March 2021 and Rs.114.55 crore as on 31 March 2020. The increase in the network is majorly due to the accretion of profits in reserves. The gearing level stood at 1.36 times as on March 31, 2022. The company's total debt stood at Rs.182.01 crore which comprised of long-term debt of Rs.54.63 crore, short term debt of Rs.27.99 crore and unsecured loans of Rs.88.52 crore. The total debt in FY2021 stood at Rs.99.33 crore. The company has taken additional debt of Rs.65 crore in FY2022 and Rs.15 crore in FY2023 towards the capital expenditure incurred to manufacture higher value added product, which stands completed in November 2022. The cost of the project was Rs.90 Cr. The coverage ratios of the company stood moderate with Interest Coverage Ratio (ICR) of 2.32 times for FY2022 compared to 2.67 times for FY2021 as against 3.43 times for FY2020. The Debt Service Coverage Ratio (DSCR) stood at 1.85 times for FY2022 as against 1.80 times for FY2021 against 3.34 times for FY2020. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 2.92 times as on 31 March 2022 as against 2.32 times as on 31 March 2021. Acuité believes that the financial risk profile of the company will remain moderate in the medium term.

Weaknesses

Working capital intensive operations

The company's working capital operations are intensive as evident from Gross Current Asset (GCA) of 98 days as on March 31, 2022, as against 132 days as on March 31, 2021, and 107 days as on March 31, 2020. The inventory levels stood at 35 days for FY2022 compared to 42 days for FY2021 as against 32 days for FY2020. The average inventory holding period is around 1 month. The debtor days stood at 36 days for FY2022 as against 67 days for FY2021 as against 60 days in FY2020. The average credit period allowed to the customers is around 30-60 days. The creditor days of the company stood at 67 days for FY2022 as against 116 days for FY2021 and 93 days for FY2020. The average credit period is around 90-120 days. The average utilization of the bank limits stood high at ~89 percent in last 6 months ended November 2022. Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Susceptibility of margins to raw material price fluctuation and foreign exchange fluctuation risk

The raw materials of the products manufactured by the company are wastepaper and coal. The prices of both the raw materials had surged in FY2022 and continues to be high in FY2023 as well. The increase in the raw material prices is expected to impact the operating profit margin of the company. Furthermore, the exports comprise of ~14 percent of the revenues in FY2022. As a result, the company's business is exposed to fluctuations in foreign exchange rates. However, the risk is mitigated to an extent as the company receives payments on advance basis.

Rating Sensitivities

Ability to improve its scale of operations and profitability margins

Any stretch in the working capital cycle leading to an increase in reliance on working capital borrowings and liquidity position.

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by moderate net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.22.71 crore in FY2022 and Rs.23.96 crore in FY2021 compared against maturing debt obligations of Rs.3.64 crore and Rs.6.53 crore respectively. The cash accruals of the company are estimated to remain around Rs.25.20-Rs.32.83 crore during 2023-24 period while its matured debt obligations is estimated to be in the range of Rs.19.67-Rs.23.51 crore during the same period. The average utilization of the bank limits stood high at ~89 percent in last 6 months ended November 2022. The company maintains unencumbered cash and bank balances of Rs.2.27 crore as on March 31, 2022, and the current ratio stood at 1.35 times as on March 31, 2022.

Outlook: Stable

Acuite believes that SMPL will maintain a stable 'outlook' in the medium term and will continue to benefit from its established track record of operations, moderate financial risk profile and stable operating performance over the medium term. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues

and/or operating margins from the current levels while maintaining its capital structure.. Conversely, the outlook may be revised to 'Negative', if the company undertakes any major debt-funded capital expenditure or generates lower than anticipated cash accruals thereby thereby impacting its financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	963.87	584.54
PAT	Rs. Cr.	5.11	7.00
PAT Margin	(%)	0.53	1.20
Total Debt/Tangible Net Worth	Times	1.36	0.78
PBDIT/Interest	Times	2.32	2.67

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.55	ACUITE BBB- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	21.13	ACUITE BBB- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	33.88	ACUITE BBB- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.44	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Tanvi Kadam Analyst-Rating Operations Tel: 022-49294065 tanvi.kadam@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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