

Press Release
Shah Paper Mills Limited
April 05, 2024
Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	90.28	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	9.72	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has upgraded in the long-term rating to '**ACUITE BBB**' (read as **ACUITE Triple B**) from '**ACUITE BBB-**' (read as **ACUITE Triple B Minus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A Three Plus**) to the Rs.100.00 Cr. bank facilities of Shah Paper Mills Limited (SMPL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade factors in the improvement in the operating and financial performance of the company marked by the increase in the operating income, profitability margins along with adequate liquidity. The company's revenue stood at Rs.1146.93 crore in FY2023 as against the revenue of Rs.963.87 crore in FY2022 on account of increase in demand as well as the price realization for the products improved. The rating also takes into consideration the top clientele such as Bhaskar Group, Gujarat Samachar, The Daily Thanthi, etc for Newsprint. For the writing printing paper, the company participates in the tenders floated by the government department and the customers are Madhya Pradesh textbook corporation, Gujarat State Board, Balbharti, etc. The upgrade also factors in the efficient working capital cycle, moderate financial risk profile marked by healthy network, low gearing and moderate debt protection metrics. The rating is however constrained by susceptibility of margins to raw material price fluctuation and foreign exchange fluctuation risk.

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 their plants located in Vapi, Gujarat. The company has 2 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, Ms Poonam Bharat Chauhan and Mr Parsottam Chhaganbhai Konkani.

Unsupported Rating

Not Applicable

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.

Improved operating performance

The Company's operating income showed an improvement of 19% which stood at Rs.1146.93 crore in FY2023 as against revenue of Rs.963.87 crore in FY2022. The growth in FY2023 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.915 crore till February 2024. The company is expecting stability in the revenue in the FY24 on account of the capex incurred which has improved the quality of the paper and also the company has further discontinued the operations of manufacturing kraft paper. Further, The operating profit margin improved and stood at 8.57 percent in FY23 compared to 3.25 percent in FY22. The improvement in the operating margin in FY23 is majorly on account of decrease in the raw material cost and also, the company was able to pass on the increased prices to majority of its customers during this period. Moreover, the PAT margins also stood at 5.44 percent in FY23 from 0.53 percent in FY22. Currently, the company has order book outstanding of Rs.221.71 Cr. to be executed. Going ahead, the company recorded operating margins of 8.54 percent and PAT margins of 3.28 percent for 8MFY2024.

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 financial risk profile of the company stood moderate, marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.197.60 crore as on 31 March 2023 as against Rs.133.61 crore as on 31 March, 2022. The increase in the networth is majorly due to the accretion of profits in reserves. The total debt of the company stood at Rs.146.83 crore which includes long term debt of Rs.47.32 Cr., short-term debt of Rs.25.45 crore, unsecured loan of Rs.53.29 Cr. and CPLTD of Rs.20.77 Cr. as on 31 March, 2023. The gearing (debt-equity) stood at 0.74 times as on 31 March 2023 as compared to 1.36 times as on 31 March, 2022. Interest Coverage Ratio stood at 4.89 times for FY2023 as against 2.32 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at 3.07 times in FY2023 as against 1.85 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.85 times as on 31 March, 2023 as against 2.92 times as on 31 March, 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.53 times for FY2023 as against 0.12 times for FY2022.

Acuité believes that the financial risk profile of the company will remain moderate in the medium term.

Efficient Working Capital Management

The company's working capital operations are efficient as evident from Gross Current Asset (GCA) of 85 days as on March 31, 2023, as against 98 days as on March 31, 2022. The inventory levels stood at 33 days for FY23 compared to 35 days for FY22. The inventory consists of 30 percent raw materials and 70 percent finished goods. The average inventory holding period is around 1.5 - 2 month. The debtor days stood at 30 days for FY23 as against 36 days for FY22. The average credit period allowed to the customers is around 15-30 days for writing paper, 30-45 days for newsprint paper and 15-30 days for government tenders. The creditor days of the company stood at 67 days for FY23 and FY22 as against 116 days for FY21. The average credit period is around 90 days for wastepaper, 90-120 days for coal & chemical. Advance payments are done to the suppliers from whom the imported raw materials are bought. The average fund-based limits utilization of the bank limits stood high at ~84 percent and for non-fund-based limits stood at ~53 percent for the last 07 months ended February

2024.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Weaknesses

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 FY2023 and will be volatile in future as well depending upon the market conditions. The increase in the raw material prices is expected to impact the operating profit margin of the company. Furthermore, the exports comprise of ~2 percent of the revenues in FY2023. 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.

Liquidity Position

Adequate

The company has an adequate liquidity position marked by healthy net cash accruals against the maturing debt obligations. The company generated cash accruals of Rs.77.52 crore in FY23 against maturing debt obligations of Rs.10.88 crore respectively. The cash accruals of the company are estimated to remain around Rs.72.40–Rs.96.95 crore during 2024-26 period while its matured debt obligations is estimated to be in the range of Rs.12.67-23.50 crore during the same period. The average fund-based limits utilization of the bank limits stood high at ~84 percent and for non-fund-based limits stood at ~53 percent for the last 07 months ended February 2024. The company maintains unencumbered cash and bank balances of Rs.1.14 crore as on March 31, 2023 and the current ratio stood at 1.30 times as on March 31, 2023 as against 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	1146.93	963.87
PAT	Rs. Cr.	62.39	5.11
PAT Margin	(%)	5.44	0.53
Total Debt/Tangible Net Worth	Times	0.74	1.36
PBDIT/Interest	Times	4.89	2.32

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jan 2023	Cash Credit	Long Term	30.00	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	1.55	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	21.13	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	33.88	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	13.44	ACUITE BBB- Stable (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.72	ACUITE A3+ Upgraded
Kotak Mahindra Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	01 Aug 2021	Not avl. / Not appl.	01 Aug 2026	Simple	25.37	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	01 Apr 2022	Not avl. / Not appl.	01 Apr 2026	Simple	9.41	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	01 Jun 2023	Not avl. / Not appl.	01 Jun 2028	Simple	15.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	01 Apr 2021	Not avl. / Not appl.	01 Apr 2025	Simple	10.50	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

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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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