February 27, 2023

# Sainsons Paper Industries Private Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term – Fund-based – Term Loans | 19.00 | 26.45 | [ICRA]A- (Stable); reaffirmed/assigned |
| Long-term – Fund-based – Cash Credit | 25.00 | 36.00 | [ICRA]A- (Stable); reaffirmed/assigned |
| Short-term – Fund-based – Overdraft Facilities | 1.00 | 0.00 | - |
| Short-term - Fund-based – Standby Line of Credit | 4.00 | 0.00 | - |
| Short-term – Non-fund Based – Letter of Credit | 2.00 | 2.00 | [ICRA]A2+; reaffirmed |
| Short-term, Interchangeable Bank Guarantee^ | (2.00) | (2.00) | [ICRA]A2+; reaffirmed |
| Long-term, Unallocated Limits | 0.00 | 4.55 | [ICRA]A- (Stable); assigned |
| **Total** | **51.00** | **69.00** | |

**Instrument details are provided in Annexure-I; ^Sublimit of Letter of Credit Limit*

## Rationale

The rating reaffirmation of Sainsons Paper Industries Private Limited (Sainsons) reflects ICRA's expectations that the company's financial profile will remain comfortable as reflected by comfortable capital structure, healthy debt coverage indicators and adequate liquidity position supported by an efficient working capital management. The ratings favourably factor in Sainsons's long track record of operations, established market presence in the kraft paper industry (especially in North India) and favourable demand expectations for the domestic kraft paper industry. Sainsons's cost structure remains supported by availability of easy agrowaste-based raw material and captive power generation.

The ratings are, however, constrained by the intense competition faced by the company in the kraft paper segment from the many organised and unorganised players in the field. In addition, its profitability margins are vulnerable to fluctuations in wastepaper prices as well as volatility in prices of wheat straw, a major raw material. The ratings also consider the risks associated with changes in wastepaper related regulations on availability and usage of water and other inputs in the manufacturing process.

The Stable outlook reflects ICRA's expectation that Sainsons will maintain a healthy credit profile. ICRA also expects its recent capacity addition amid healthy demand from end-user industries to register steady volume growth. Moreover, recent price hikes and correction in prices of some raw materials will support the company's profitability.

## Key rating drivers and their description

### Credit strengths

**Established track record as a kraft paper manufacturer –** Sainsons has been manufacturing kraft paper since 1992, which has enabled it to establish strong vendor, marketing, and distribution networks, while forging healthy relationships with both customers and suppliers. The company caters to a wide variety of end-user industries such as e-commerce, FMCG, textiles, and food and vegetable packaging, among others.

**Cost structure supported by agrowaste-based manufacturing and co-generation operations –** The main raw material for kraft paper is agrowaste like wheat straw. Given the favourable location of its plant amid a major agricultural belt, the company benefits from ample raw material supply and relatively low logistic costs. It also has a rice-husk based co-generation unit with an installed capacity of 9 MW. The total power requirement of the company is 7-8 MW. Besides electricity, the steam generated from the captive power plant is also used for digesting and drying purposes. Both these factors favourably impact the company's cost structure. The bio-methanation plant currently being set up is also expected to provide further support to margins.

**Healthy financial profile characterised by comfortable coverage and leverage metrics –** Sainsons's gearing ratio improved to 0.2x as on November 30, 2022 (provisional) from 0.4x as on March 31, 2022, led by healthy reserve accretion and scheduled debt repayment. The coverage indicators have continued to remain healthy as reflected by total debt to OPBITDA of 1.0x as on November 30, 2022 (1.2x as on March 31, 2022) and interest coverage of over 16.9x as on November 30, 2022 (16.1x as on March 31, 2022). In the absence of any major debt-funded capex plans and expectations of growing accruals, Sainsons's coverage metrics are expected to be comfortable in the near to medium term.

## Credit challenges

**Highly fragmented and unorganised industry; constrains pricing power –** Sainsons faces stiff competition from both organised and unorganised players in the paper industry. Given the low entry barriers, the players in this industry have limited pricing power and are exposed to competition led pressures on profitability.

**Profitability exposed to volatility in raw material prices –** The main raw material used in the manufacturing process is wheat straw and wastepaper. Raw material cost constitutes over 50% of the total cost for the company and, thus, average realisation is dependent on the prices of the key materials. The prices of both wheat straw and wastepaper and have witnessed significant volatility. Sainsons's operating margin, hence, remains vulnerable to input prices of its raw materials and its ability to pass on any rise in the same. ICRA notes that unlike many of its peers, the company does not use imported wastepaper pulp; this reduces its import dependence and exposure to forex risk.

**Exposure to changes in wastepaper related regulations –** Sainsons's profitability remain vulnerable to any regulatory changes in the kraft paper industry. The paper manufacturing industry is exposed to environmental risks, since its production causes air, water and land pollution. Discarded paper and paperboards also make up a sizable portion of solid municipal waste in landfill sites. Thus, the entity remains exposed to the risk associated with changes in wastepaper related regulations on availability and usage of water and other inputs in the manufacturing process.

## Liquidity position: Adequate

Sainsons's liquidity position is adequate, with healthy cash flow from operations and availability of moderate undrawn lines of credit. The company's average working capital utilisation was low at 40% of sanctioned limits and 47% of drawing power for the 12-month period ending in January 2023. It had a comfortable buffer of Rs. 16 crore in working capital limits as on January 31, 2023. Against the liquidity available, the company has repayment obligations of Rs. 1.5 crore in Q4 FY2023 and Rs. 6.5 crore in FY2024. It also has a maintenance capex commitment of nearly Rs. 12 crore for FY2024, to be funded through internal accruals. The company does not maintain any material free cash balances. The company's liquidity position is likely to remain adequate over the near-term, supported by healthy accruals and unutilised working capital limits.

## Rating sensitivities

**Positive factors –** ICRA could upgrade Sainsons's rating if there is substantial growth in revenues with improvement in operating margins and liquidity on a sustained basis.

**Negative factors –** Negative pressure on Sainsons's rating could arise if there is a deterioration in the working capital cycle or any large, debt-funded capex that weakens the capital structure and impacts the company's liquidity position on a sustained basis. A significant decline in the revenues and margins on a sustained basis would also adversely impact the ratings. Specific credit metrics that could lead to a downgrade include TD/OPBDITA above 2.3 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Corporate Credit Rating Methodology] |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the standalone financials of Sainsons. |

## About the company

Incorporated in March 1989, Sainsons is engaged in the manufacturing of different varieties of kraft paper (100-250 grams per metre, or GSM, and primarily 20 burst factor, or BF), which find application in the packaging industry, particularly in the manufacturing of corrugated boxes. The company's production facility is in Kurukshetra, Haryana, with an installed manufacturing capacity of 1,35,000 MTPA. Situated in a major agricultural belt, the plant location benefits from the abundant and consistent availability of agricultural waste, the key raw material. Sainsons also has a captive agrowaste-based power plant with a 9-MW capacity. The company caters to a diversified customer base, with bulk of its sales coming from North India.

The company is promoted by Saini and family. Mr. Balkrishan Saini is the Co-founder and Executive Director of the company; while Mr. Pradeep Saini, the son of the other Co-founder, Mr. Sadhu Ram Saini, is the Managing Director of the company.

### Key financial indicators (audited)

| Sainsons Standalone | FY2021 | FY2022 | 8M FY2023* |
|---|---|---|---|
| **Operating income** | 276.0 | 392.8 | 319.4 |
| **PAT** | 11.4 | 16.9 | 16.8 |
| **OPBDITA/OI** | 12.2% | 9.5% | 10.0% |
| **PAT/OI** | 4.1% | 4.3% | 5.3% |
| **Total outside liabilities/Tangible net worth (times)** | 0.8 | 0.7 | - |
| **Total debt/OPBDITA (times)** | 1.4 | 1.2 | 1.0 |
| **Interest coverage (times)** | 7.2 | 16.1 | 16.9 |

*PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Provisional figures*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Sep 30, 2022 (Rs. crore) | Date & rating in | Date & rating in FY2022 | | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Feb 27, 2023 | Dec 13, 2021 | Dec 07, 2021 | | - |
| 1 | **Term Loans** | Long-term | 26.45 | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | - | - |
| 2 | **Cash Credit** | Long-term | 36.00 | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | - | - | - |
| 3 | **Overdraft Facilities** | Short-term | 0.00 | - | - | **[ICRA]A2+** | **[ICRA]A2+** | - | - |
| 4 | **Standby Line of Credit** | Short-term | 0.00 | - | - | **[ICRA]A2+** | - | - | - |
| 5 | **Letter of Credit** | Short-term | 2.00 | - | **[ICRA]A2+** | **[ICRA]A2+** | - | - | - |
| 6 | **Interchangeable Bank Guarantee^** | Short-term | (2.00) | - | **[ICRA]A2+** | **[ICRA]A2+** | - | - | - |
| 7 | **Unallocated limits** | Long-term | 4.55 | - | **[ICRA]A- (Stable)** | - | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term – Fund-based - Term Loans | Simple |
| Long-term – Fund-based - Cash Credit | Simple |
| Short-term -Fund-based - Overdraft Facilities | Simple |
| Short-term - Fund Based - Standby Line of Credit | Simple |
| Short-term - Non-fund-based - Letter of Credit | Very simple |
| Short-term, Interchangeable Bank Guarantee^ | Very simple |
| Long-term, Unallocated limits | Not applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Long-term – Fund-based - Term Loans | FY2023 | NA | FY2030 | 26.45 | [ICRA]A- (Stable) |
| NA | Long-term – Fund-based - Cash Credit | NA | NA | NA | 36.00 | [ICRA]A- (Stable) |
| NA | Short-term - Non- fund-based - Letter of Credit | NA | NA | NA | 2.00 | [ICRA]A2+ |
| NA | Short-term, Interchangeable Bank Guarantee^ | NA | NA | NA | (2.00) | [ICRA]A2+ |
| NA | Long-term, Unallocated limits | NA | NA | NA | 4.55 | [ICRA]A- (Stable) |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis – Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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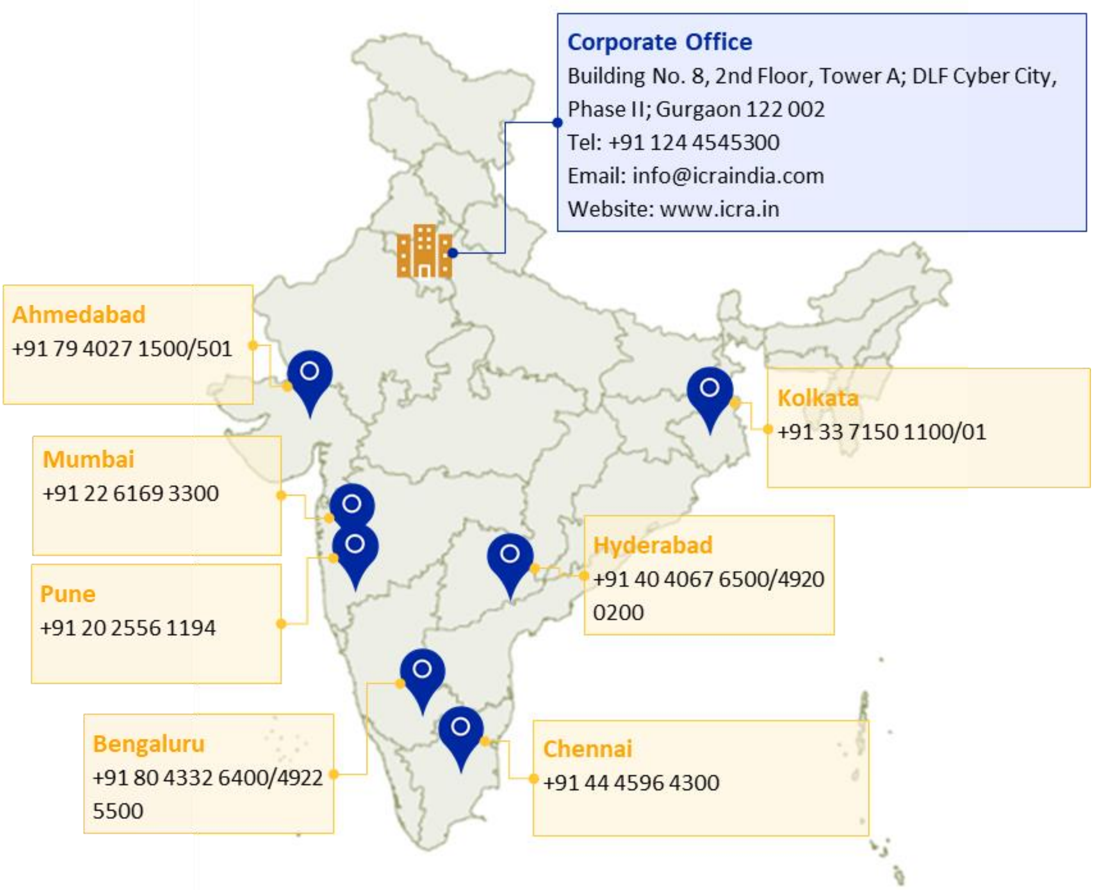




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