SATIA INDUSTRIES LIMITED

An ISO 9001, 14001 & OHSAS 18001 company

CIN: - L21012PB1980PLC004329

Manufacturer of Quality Writing, Printing & Speciality Paper with ECO MARK

IS 1848

SIL/CS

Date: 27.03.2023

The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai-400001	The Manager, Listing Department, National Stock Exchange of India Ltd, Exchange Plaza, Plot No. C/1, G-Block, Bandra Kurla Complex, Bandra (East), Mumbai-400051
Scrip Code: 539201	Symbol: SATIA

Subject: Submission of Rating Revised by India Ratings & Research (Ind-Ra) - Satia Industries Limited's (SIL)

Dear Sir/Madam,

Pursuant to Regulation 30 and other applicable provisions of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015. We are enclosing herewith copy of the format rating issued by India Ratings & Research Private Limited (IR&R) revising the credit rating of Satia Industries Limited to IND A+/Stable for Term Loans, IND A+/Stable/IND A1+ for fund-based bank facilities and IND A+/ Stable /IND A1+ for non-fund based bank facilities.

This is for your information and record please.

Thanking you

Yours faithfully,
For Satia Industries Limited

RAKESH KUMAR DHURIA

Digitally signed by RAKESH KUMAR DHURIA
Date: 2023.03.27 18:05:03 +05'30'

(Rakesh Kumar Dhuria)
Company Secretary

Registered Office & Mill : Village: Rupana, Sri Muktsar - 152 032, Punjab, India. Ph.: 262001, 262215, 263585 Ph. 9872400996 email: satiapaper@satiagroup.com

Branch : 613-615, Naurang House, 21, K.G. Marg, Connaught Place, New Delhi-110001 Ph.: 23710351/52/53 Fax : 23718191 e-mail : sales.delhi@satiagroup.com
Branch : S.C.O. No. 90 - 92, Sector 8 - C, Madhya Marg, Chandigarh - 160018 Ph. : 0172-2780022/23, 4618377 Fax : 0172-4648606 : satiaindustriesltd@gmail.com
Branch : 304, Navjeevan Complex, 29, Station Road, Jaipur-302006, Rajasthan Ph. : 2371055, 2379554 Fax : 0141-2374433 e-mail : satiapaper.jpr@gmail.com

India Ratings Upgrades Satia Industries to 'IND A+'; Outlook Stable

Mar 27, 2023 | Paper & Paper Products

India Ratings and Research (Ind-Ra) has upgraded Satia Industries Limited's (SIL) Long-Term Issuer Rating to 'IND A+' from 'IND A'. The Outlook is Stable. The instrument-wise rating actions are as follows.

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	FY29	INR4149.2 (increased from INR3,976.8)	IND A+/Stable	Upgraded
Fund-based bank facilities	-	-	-	INR850	IND A+/Stable/IND A1+	Upgraded
Non-fund-based bank facilities	-	-	-	INR1,250 (increased from INR600)	IND A+/Stable/IND A1+	Upgraded

The upgrade reflects SIL's faster-than-Ind-Ra expected ramp up of new capacity of 100,000 million tonnes per annum (MTPA) in FY23, along with a stronger-than-expected profitability, leading to a significant improvement in its credit metrics in FY23.

Key Rating Drivers

Significant Increase in Scale with Capex Completion; Product Profile to Improve from FY24: SIL doubled its production capacity to 2,05,000MTPA in FY22 from 1,05,000MTPA, leading to a significant increase in the company's scale as well as market position. The capacity ramp up resulted in a 54% yoy growth in the company's sale volumes to 156,219 million tonnes (MT) in 9MFY23 with the new facility achieving full utilisation in 3QFY23, which was faster-than-expected by Ind-Ra. The agency expects the company to record more than 40% yoy growth in volume in FY23 backed by ramping up of new capacity. However, the volume growth is likely to moderate in FY24, but the incremental production from the enhanced capacity would result in some growth in FY24, given the full utilisation of its existing facility in the past few years.

The expansion, accompanied by an increase in the pulp capacity to 284,700MT from 229,950MT is also likely to improve the company's product profile by increasing the proportion of high-quality wood-based paper to 40% in FY24 from 25% in FY23. SIL's product mix is moderately diversified, consisting of products with diverse end-uses. Maplitho paper and snowwhite paper are the highest sale contributors, accounting for 37% and 31%, respectively, of the total sales in FY22, followed by cream wove (8%), cover (6%), surface size (4%), and cup stock paper (3%). The new capacity would enable the company to manufacture a higher-quality copier paper in addition to catering to incremental demand from state education boards.

Rise in Profitability on Higher Realisations; Likely to Remain Healthy despite Some Moderation: Paper demand rebounded in FY22 after witnessing a sharp fall in FY21, despite continued online classes in educational institutions and the hybrid working model adopted by various offices for a large part of the year. With full normalisation in FY23, demand grew further, which coupled with the rise in global pulp and waste paper prices owing to supply disruptions led to a significant rise in paper prices, benefitting integrated players. After a 25% yoy increase in paper realisation to INR62/kg in FY22 (FY20: INR60.9/kg), it jumped to over INR87/kg in 9MFY23. The sharp increase in prices led to a higher-than-expected increase in the EBITDA to INR17.4/kg in 9MFY23 (FY22: INR12.6/kg, FY21: INR11.5/kg, FY20: INR13.2/kg) despite an increase in input costs of wheat straw, wood chips, among other. With an easing of supply pressures, leading to a correction in global pulp and paper prices over the past few months and a gradual increase in paper imports into India (10MFY23: 1.5MT, 10MFY22: 1.2MT) after a sharp fall in FY21, Ind-Ra expects paper prices to witness some moderation in FY24. Notwithstanding some moderation due to a reduction in prices, Ind-Ra expects SIL's profitability to remain comfortable with support from an improvement in feedstock mix post completion of the pulp mill upgradation in April 2023 and operational efficiency improvements. The company is improving its operational efficiencies and reducing costs by measures such as installing a new boiler which would increase the proportion of low-cost rice straw as the feedstock (compared to largely rice husk), thereby reducing power and fuel costs.

Significant Improvement in Credit Metrics in 9MFY23: With a 118% yoy surge in the EBITDA to INR2.7 billion in 9MFY23 led by the improvement in both profit margins and volumes, SIL's net leverage (net debt excluding dealer deposits/EBITDA) improved to 1.3x (FY22: 2.2x, FY21: 2.5x). After remaining below 2.0x during FY18-FY20, SIL's net leverage increased to 2.5x in FY21 (FY20: 1.5x) owing to the combined impact of the COVID-19-led fall in the EBITDA and an increase in debt to fund the capacity expansion of INR4 billion incurred over FY21-FY22. SIL is likely to undertake an additional INR4 billion-5 billion capex over the next three years mainly for machine upgradation, setting up of new boilers, and completion of pulp mill modification. However, the management has confirmed that no large expansionary capex is planned over the next two-to-three years. As a result, Ind-Ra expects SIL's net leverage to remain below 1.5x in FY23 and reduce further over the near-to-medium term. The EBITDA interest coverage (EBITDA/gross interest expense) improved to 11.2x in 9MFY23 (FY22: 8.7x, FY21: 7.7x, FY20: 8.7x), and is likely to remain strong in the near-to-medium term.

Significantly Integrated Operations: SIL is among India's leading manufacturers of writing & printing paper, comprising various varieties, colours and grades of Maplitho paper with a track record of four decades. While the paper industry is fragmented with over 750 paper mills in existence, less than 100 mills have a capacity of more than 50,000 tonnes per annum and less than 20 have a scale and integration that is comparable with SIL. High capital investment, technical expertise, gestation period and raw material procurement challenges restrict the entry of players of this scale in the industry.

SIL's plant is located in Muktsar (Punjab), which is considered the state's wheat belt and has adequate availability of wheat straw, wood chips and veneer waste to meet the company's raw material requirements. In FY22, SIL procured 95% (FY21: 95%) of its raw material (wheat straw and wood chips) from the local catchment areas. The company has a fully-integrated manufacturing facility, which includes paper machines; an in-house pulp manufacturing facility; a captive power generation plant to meet 100% of its power requirement; and a chemical recovery plant. SIL also has eucalyptus plantations coverage of 540 acres of land for effluent treatment and to supplement the company's raw material requirements.

Healthy Market Share in State's Textbook Segment: SIL continues to have a healthy market share of 10%-15% in the state's book boards market in India. The company has a longstanding relationship with the state's textbook corporations for supplying paper. The state's textbook segment commands higher operating margins than the open market sales and contributes 40%-50% to SIL's overall sales. SIL's healthy order book position in the state textbook segment provides revenue visibility over the medium term.

Liquidity Indicator - Adequate: SIL's average fund-based working capital limit utilisation was about 55% for the 12 months ended February 2023. Its cash flows have demonstrated resilience during economic downturns, with the cash flow from operations remaining positive over the last 10 years (FY22: INR1,601 million; FY21: INR1,371 million). Ind-Ra expects SIL's cash flow from operations to remain positive in the medium term, supported by healthy EBITDA margins and a moderate working capital cycle.

However, the company's free cash flow remained negative over the past seven of 10 years (FY22: negative INR791 million; FY21: negative INR855 million;), largely due to the capex programmes. However, with a healthy profitability, Ind-Ra expects the free cash flow to turn positive in FY24 although remain negative in FY23 (FY22: negative INR791 million, FY21: negative INR855 million). The company has repayment obligations of INR1.1 billion and INR1.3 million in FY24 and FY25, respectively, which are likely to be funded by internal accruals. At 9MFYE23, the company had cash and cash equivalents of INR6 million (FYE22: INR11 million, FYE21: INR7 million). Related-party transactions have historically remained minimal, but any significant outflow could be construed as negative.

Low Penetration to Drive Medium-term Paper Demand in India: Ind-Ra believes the fundamental demand prospect for paper remains stable over the medium term, given its under penetration across segments. Paper demand in the education sector would continue to grow with an increase in the literacy rate; although, copier paper could experience some slowdown over the near term, but the increasing use of computers in the sub-urban and rural areas will gradually replace the lost volumes from metro cities due to the ongoing remote working. Overall, the writing and printing segment is likely to grow at a low single digit compared to mid-single digit in the pre-covid period. However, with growing consumerism and e-commerce, and the ban on plastic usage in several states, demand for cupstock and packaging paper is likely to be healthy over the medium term.

Cyclical Industry: The paper industry is cyclical in nature and incumbents are exposed to volatility in raw material prices, as well as the threat of imports, which could prevent companies from passing on increases in raw material prices. In addition, lumpy capacity additions that are not commensurate with demand growth could simultaneously exert upward pressure on raw material prices and downward pressure on finished product prices, leading to a weakening of profit margins.

Rating Sensitivities

Positive: A steady growth in the scale and profitability with a diversified product mix, leading to the net leverage reducing below 1.25x, on a sustained basis, would be positive for the ratings.

Negative: Deterioration in the profitability and/or large debt-funded capex, leading to the net leverage exceeding 1.75x, on a sustained basis, would be negative for the ratings.

Company Profile

SIL was incorporated in 1980 by Ajay Satia. It manufactures writing & printing paper at its 205,000 tonnes per annum manufacturing facility at Malout Road (Muktsar, Punjab).

FINANCIAL SUMMARY

Particulars	FY22	FY21
Revenue (INR million)	8,909	5,884
EBITDA (INR million)	1,812	1,361
EBITDA margin (%)	20.3	23.1
Interest coverage (x)	8.7	7.7
Net leverage (x)	2.2	2.5

Source: SIL

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			H		
	Rating Type	Rated Limits (million)	Rating	26 September 2022	11 August 2022	18 May 2
Issuer rating	Long-term	-	IND A+/Stable	IND A/Positive	IND A/Positive	IND A-/Po
Term loans	Long-term	INR4,149.2	IND A+/Stable	IND A/Positive	IND A/Positive	IND A-/Po
Fund-based working capital limits	Long-term/Short-term	INR850	IND A+/Stable /IND A1+	IND A/Positive /IND A1	IND A/Positive /IND A1	IND A-/Po /IND A
Non-fund-based working capital limits	Long-term/Short-term	INR1,250	IND A+/Stable/IND A1+	IND A/Positive/IND A1	IND A/Positive/IND A1	IND A-/Positive A2+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Non-fund-based working capital limits	Low
Fund-based working capital limits	Low
Term loans	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Khushbu Lakhotia
Associate Director
India Ratings and Research Pvt Ltd

Room no - 1201, 12th Floor, OM Towers, 32 Chowringhee Road, Kolkata-700071, India
+91 33 40302508
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Rishabh Soni
Analyst
022 40001758

Chairperson
Abhishek Bhattacharya
Senior Director and Head Large Corporates
+91 22 40001786

Media Relation
Ankur Dahiya
Senior Manager – Corporate Communication
+91 22 40356121

APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

The Rating Process

Evaluating Corporate Governance

DISCLAIMER