SATIA INDUSTRIES LIMITED

An ISO 9001, 14001 & 45001 company
CIN : L21012PB1980PLC004329

Manufacturer of Quality Writing, Printing & Speciality Paper with ECO MARK
GST IN : 03AACCS7233A1ZZ
www.satiagroup.com

IS 1848

SIL/CS

Date: 08-04-2024

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 (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) affirms 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

Dhuria

(Rakesh Kumar Dhuria)
Company Secretary

RAKESH KUMAR DHURIA
Digitally signed by RAKESH KUMAR DHURIA
Date: 2024.05.08 09:59:31 +05'30'

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India Ratings Affirms Satia Industries' Bank Facilities at ‘IND A+’/Stable/‘IND A1+’; Rates Additional Facilities

May 07, 2024 | Paper & Paper Products

India Ratings and Research (Ind-Ra) has taken the following rating actions on Satia Industries Limited’s (SIL) bank facilities:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Term loans	-	-	FY31	INR4,149.2	IND A+/Stable	Affirmed
Proposed term loans	-	-	-	INR60	IND A+/Stable	Assigned
Fund-based bank facilities	-	-	-	INR850	IND A+/Stable/IND A1+	Affirmed
Fund-based bank facilities	-	-	-	INR250	IND A+/Stable/IND A1+	Assigned
Non-fund-based bank facilities	-	-	-	INR1,250	IND A+/Stable/IND A1+	Affirmed

Analytical Approach

Ind-Ra continues to take a standalone view of SIL for the rating review.

Detailed Rationale of the Rating Action

The affirmation reflects SIL’s healthy business profile with integrated nature of operations and a healthy market share in state textbook segment. The company has been able to fully ramp-up the new capacity in FY24 while generating strong EBITDA margins, aided by high realisations. While realisations are likely to moderate in the near term leading to normalisation of the up-cycle margins, Ind-Ra believes the integrated operations and cost efficiencies with the ability to use multiple feedstocks would ensure a healthy margin profile through-the-cycle. The ratings are also supported by the robust credit metrics which are likely to be maintained in the near-to-medium term, given the healthy cash flow generation and the absence of any major expansionary capex. However, the rating remains constrained by the cyclical nature of the paper industry.

List of Key Rating Drivers

Strengths
- Integrated nature of operations
- Healthy market share in state's textbook segment
- Capacity fully ramped up; volumes to remain stable
- Profitability likely to remain healthy despite moderating from cyclical high
- Credit metrics to remain strong

Weaknesses
- Low penetration to drive medium-term paper demand in India; growth to be modest
- Cyclical industry

Detailed Description of Key Rating Drivers

Integrated Nature of Operations: SIL is among India's leading manufacturers of writing and printing paper, with a capacity to manufacture 2,05,000 metric tonnes per annum (mtpa of 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 FY23, SIL procured 94% (FY22: 95%) of its raw material (wheat straw and wood chips) from the local catchment areas. The company has an 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.

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 SIL's open market sales and contributes 40%-50% to its overall sales. SIL's healthy order book position in the state textbook segment provides revenue visibility over the medium term.

Capacity Fully Ramped Up; Volumes to Remain Stable: The expansion in FY22, accompanied by an increase in the pulp capacity to 284,700MT from 229,950MT has also improved the company's product profile by increasing the proportion of high-quality wood-based paper to 28% in FY24 (FY23: 25%). The new capacity also enabled the company to manufacture a higher quality copier paper in addition to catering to incremental demand from state education boards. SIL's product mix consists of products with diverse end-uses. Maplitho paper and snow-white paper are the highest sale contributors, accounting for 38% and 32%, respectively, of the total sales in FY23, followed by cream wove (8%), cover (6%), surface size (4%), and cup stock paper (3%).

After a 48% yoy growth in the sale volumes to 209,910MT in FY23 (FY21: 120,510MT) led by the ramp-up of the new capacity added in FY22, SIL's sale volumes increased by a modest 2% yoy to 159,047MT in 9MFY24 with the company fully utilising its capacity. Ind-Ra understands from SIL's management that with the capacity expansion having been recently completed, there is no expansionary capex planned in the near term. Furthermore, given the full utilisation of its facilities, Ind-Ra expects volumes to remain stable; although, the company plans to improve its product mix. However, the normalisation in realisations is likely to result in a revenue peaking out from FY24 with volumes remaining stable.

Profitability Likely to Remain Healthy Despite Moderating from Cyclical High: With a recovery in paper demand over FY22-FY23 post covid, coupled with a rise in global pulp prices and supply chain issues which disrupted imports, paper realisations rose sharply to INR91/kg in FY23 (FY22: INR62/kg, FY21: INR 49.6/Kg; FY20: INR60.9/kg). The sharp increase in paper realisations led to a surge in EBITDA to INR19.8/kg in FY23 (FY22: INR12.6/kg, FY21: INR11.5/kg, FY20: INR13.2/kg), despite an increase in input costs of wheat straw, wood chips, fuel, among others. However, the global pulp prices corrected significantly in 9MFY24, given the easing of supply chain issues, which has also prompted paper companies in India to reduce prices due to an increase in competitiveness of imports. SIL's realisation declined to INR81/kg in 9MFY24 with prices in 3QFY24 coming in at around INR78/kg. However, EBITDA remained high at super-normal levels of over INR20/kg in 9MFY24 owing to a decline in input costs. The key raw materials - wheat straw, waste paper and wood pulp prices - after peaking during FY23 have also started reducing during 9MFY24.

Ind-Ra believes that paper prices could witness a further moderation in the near term, leading to normalisation in SIL's profitability to near mid-cycle levels. However, Ind-Ra expects SIL's profitability to remain healthy and be supported by operational efficiency improvements and cost-reduction measures undertaken from setting up of conventional digester system and rice-straw boiler, which will lower power and fuel costs.

Credit Metrics to Remain Strong: With a surge in EBITDA to INR4,118 million in FY23 (FY22: INR1,812 million) and INR3,279 million in 9MFY24 (9MFY23: INR2,756 million), SIL's net leverage (net debt excluding dealer deposits/EBITDA) improved to 1.2x in FY23 (FY22: 2.2x) and further to 0.9x in 9MFY24, despite capex of INR1,066 million over FY23-1HFY24. SIL has also been prepaying debt from its surplus cash flow generation. The lowering interest outflow led to an improvement in the interest coverage (EBITDA/gross interest expense) to 14.5x in 9MFY24 (FY23: 11.7x, FY22: 8.7x). However, the management has confirmed that there is no large planned expansionary capex, with only efficiency improvement and existing machinery refurbishment capex being planned in FY25-FY26. Thus, Ind-Ra expects the credit metrics to remain strong with the net leverage of around 1.0x over the near-to-medium term.

Low Penetration to Drive Medium-term Paper Demand in India; Growth to be Modest: 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 literacy rate. Overall, the writing and printing segment is likely to grow at a low-single digit compared to mid-single digit pre-covid. 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. Furthermore, lumpy capacity additions that are not commensurate with demand growth could simultaneously exert an upward pressure on raw material prices and a downward pressure on finished product prices, leading to a weakening of profit margins.

Liquidity

Adequate: SIL's average use of the fund-based working capital limit was about 51% for the 12 months ended February 2024. Its cash flows have demonstrated resilience during economic downturns, with the cash flow from operations remaining positive over the last 10 years (FY23: INR2,820 million, FY22: INR1,601 million; FY21: INR1,371 million). Ind-Ra expects the cash flow from operations to remain robust 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 last seven of 10 years (FY22: negative INR791 million; FY21: negative INR855 million;), largely due to capex programmes. However, with a healthy profitability, SIL's free cash flow turned positive to INR412 million in FY23, and is likely to remain positive in FY24 as well. In light of the operational efficiency enhancement capex to be undertaken during FY25-FY26 coupled with moderation of EBITDA, the agency expects the free cash flow to remain lower in FY25-FY26 than FY23-FY24, although remain positive.

SIL has scheduled repayment obligations of INR1,145 million and INR946 million in FY25 and FY26, respectively, which are likely to be funded by internal accruals. SIL does not maintain any sizeable free cash balance and relies on unutilised limits for any exigency. SIL has adequate drawing power to avail from unutilised limits. At FYE23, the company had a modest free cash balance of INR4 million (FYE22: INR11 million, FYE21: INR7 million). Related-party transactions have historically remained minimal, but any significant outflow could be construed as a rating negative.

Rating Sensitivities

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

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

About the Company

SIL was incorporated in 1980 by Ajay Satia.It manufactures writing and printing paper at its 205,000-mptamanufacturing facility at Malout Road, Muktsar, Punjab.

KEY FINANCIAL INDICATORS

Particulars	9MFY24	FY23	FY22
Revenue (INR million)	12,902	18,837	8,909
EBITDA (INR million)	3,279	4,118	1,812
EBITDA margin (%)	25.4	21.9	20.3
Interest coverage (x)	14.5	11.8	8.7
Net leverage (x)	0.9	1.2	2.2
Source: SIL, Ind-Ra;			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	22 September 2023	27 March 2023	26 September 2022	11 August 2022	18 May 2021
Issuer rating	Long-term	-	-	WD	IND A+/Stable	IND A/Positive	IND A/Positive	IND A-/Positive
Term loan	Long-term	INR4,209.2	IND A+/Stable	-	IND A+/Stable	IND A/Positive	IND A/Positive	IND A-/Positive
Fund-based working capital limits	Long-term/ Short-term	INR1,100	IND A+/Stable/IND A1+	-	IND A+/Stable/IND A1+	IND A/Positive /IND A1	IND A/Positive /IND A1	IND A-/Positive /IND A2+
Non-fund-based working capital limits	Long-term/ Short-term	INR1,250	IND A+/Stable/IND A1+	-	IND A+/Stable/IND A1+	IND A/Positive/IND A1	IND A/Positive/IND A1	IND A-/Positive /IND A2+

Bank wise Facilities Details

Click here to see the details

Complexity Level of the Instruments

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