SATIA INDUSTRIES LIMITED

An ISO 9001, 14001 & OHSAS 18001 company

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

IS 1848

CIN: L21012PB1980PLC004329

SIL/CS

Date: 04.10.2024

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 (E) Mumbai - 400 051.
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 rating issued by India Ratings & Research Private Limited (IR&R) and have assigned the following credit rating to Satia Industries Limited.

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/ Watch	Rating Action
Proposed commercial paper*	-	-	-	INR350	IND A1+	Assigned
Proposed non-convertible debentures^	-	-	-	INR1,000	IND A+/Stable	Assigned
Proposed term loans	-	-	-	INR60	IND A+/Stable	Affirmed
Term loans	-	-	FY31	INR3,734.2 (reduced from INR4,149.2)	IND A+/Stable	Affirmed
Fund-based bank facilities	-	-	-	INR1,100	IND A+/Stable/IND A1+	Affirmed
Non-fund-based bank facilities	-	-	-	INR1,250	IND A+/Stable/IND A1+	Affirmed

This is for your information and record please.

Thanking you,

Yours sincerely,
For Satia Industries Ltd

RAKESH KUMAR DHURIA
Digitally signed by RAKESH KUMAR DHURIA
Date: 2024.10.04 11:34:39 +05'30'

(Rakesh Kumar Dhuria)
Company Secretary

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India Ratings & Research
A Fitch Group Company

India Ratings Assigns Satia Industries' Proposed NCDs & Term Loans 'IND A+'/Stable & Proposed CP 'IND A1+'; Affirms Existing Ratings

Oct 03, 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
Proposed commercial paper*	-	-	-	INR350	IND A1+	Assigned
Proposed non-convertible debentures^	-	-	-	INR1,000	IND A+/Stable	Assigned
Proposed term loans	-	-	-	INR60	IND A+/Stable	Affirmed
Term loans	-	-	FY31	INR3,734.2 (reduced from INR4,149.2)	IND A+/Stable	Affirmed
Fund-based bank facilities	-	-	-	INR1,100	IND A+/Stable/IND A1+	Affirmed
Non-fund-based bank facilities	-	-	-	INR1,250	IND A+/Stable/IND A1+	Affirmed

*carved out and sub-limit of existing fund-based working capital limits

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 to moderate from cyclical highs, although remain healthy
- 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 that of 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 FY24, SIL procured 94% (FY23: 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 FY24, 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 213,804MT in FY24 with the company continuing to fully utilise 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. The company would be focussing on backward integration, improving operating efficiency and modernising existing machinery.

Furthermore, given the full utilisation of its facilities, Ind-Ra expects FY25 volumes to remain in line with FY24, with some reduction in volumes expected during a planned machinery upgradation exercise. Further, the company plans to improve its product mix. Despite stable volumes, an expected normalisation in realisations is likely to result in revenue peaking out from FY24 . During 1QFY25, SIL reported sales volume of 53,648MT.

Profitability to Moderate from Cyclical Highs, although Remain Healthy: With pent-up demand over FY22-FY23 post COVID-19, coupled with a rise in global pulp prices and supply chain issues disrupting imports resulted in paper realisations spiking to INR91/kg in FY23 (FY22: INR62/kg, FY21: INR 49.6/Kg), SIL's realisation witnessed moderation to INR80/kg during FY24, which was in line with the agency's expectations. However. the EBITDA/kg continued to be healthy at INR19.5 in FY24 (FY23: 19.8, FY22: INR12.6, FY21: INR11.5). The decline in paper prices was partially offset by a reduction in raw material prices. Further, SIL's increasing use of agro pulp enabled to protect its margins in FY24 during when wood pulp prices were rising. Additionally, SIL's efficient utilisation of its owned rice straw boilers resulted in substantial fuel cost savings. Being a key supplier to state textbook boards, SIL also commands higher operating margins compared to sales in the open market.

Ind-Ra notes that SIL is likely to undertake upgradation of PM3 machine in FY25-FY26, which could necessitate a shutdown for a brief period. An ensuing loss in production and absorption of fixed costs during the said upgradation period could result in some moderation in profitability. Furthermore, Ind-Ra believes that paper prices could witness a further moderation in the near term. The above factors are likely to result in normalisation in SIL's profitability to near above mid-cycle levels.

Credit Metrics to Remain Strong: With continuous strong EBITDA generation for two consecutive years (FY24: INR4,187 million, FY23: INR4,118 million) and debt repayments from surplus cash flow generation, SIL's debt metrics have continued to be on an improving trajectory. The net leverage (net debt excluding dealer deposits/EBITDA) improved to 0.8x in FY24 (FY23: 1.2x, FY22: 2.2x, FY21: 2.5x) and interest coverage to 14.0x (11.8x, 8.7x). However, 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. To part finance the upgradation of PM3 and modernise its chemical recovery plant, SIL is evaluating fund raising from debt capital markets. Despite debt addition, Ind-Ra expects the credit metrics to remain strong with the net leverage of around 1.0x over the near-to-medium term, as the backward integration capex is expected to result in substantial cost savings.

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 July 2024. Its cash flows have demonstrated resilience during economic downturns, with the cash flow from operations remaining positive over the last 10 years (FY24: INR3,623 million, 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 remained positive at INR1,433 million 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. SIL would also have the flexibility of managing working capital requirements by raising commercial paper, which would be carved out of its working capital limits. At FYE24, the company had a modest free cash balance of INR4 million (FYE23: 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, along 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.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SIL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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	1QFY25	FY24	FY23
Revenue (INR million)	3,994	17,208	18,837
EBITDA (INR million)	1,107	4,187	4,118
EBITDA margin (%)	27.7	24.3	21.9
Interest coverage (x)	16.8	14.0	11.8
Net leverage (x)	-	0.7	1.2
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	7 May 2024	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	INR3794.2	IND A+/Stable	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+/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+/Stable/IND A1+	IND A/Positive/IND A1	IND A/Positive/IND A1	IND A-/Positive /IND A2+
Proposed commercial paper*	Short-term	INR 350	IND A1+	-	-	-	-	-	-
Proposed non-convertible debentures	Long-term	INR 1000	IND A+/Stable	-	-	-	-	-	-

*carved out and sub-limit of existing fund-based working capital limits

Bank wise Facilities 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
Proposed non-convertible debenture	Low
Proposed commercial paper	Low

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

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About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.
Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.
India Ratings is a 100% owned subsidiary of the Fitch Group.
For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process