An ISO 9001, 14001 & OHSAS 18001 company

SATIA INDUSTRIES LIMITED

Manufacturer of Quality Writing, Printing & Speciality Paper with ECO MARK IS : 1848

CIN: - L21012PB1980PLC004329

SIL/CS

Date: 18.05.2021

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 Rating & Research (Ind-Ra) - Satia Industries Limited's (SIL) Outlook to Positive from Stable.

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-/Positive for Term Loans, IND A-/Positive/IND A2+ for fund based bank facilities and IND A-/ Positive /IND A2+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

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India Ratings & Research
A Fitch Group Company

India Ratings Revises Satia Industries' Outlook to Positive; Affirms 'IND A-'

18

MAY 2021

By Prasad Patil

India Ratings and Research (Ind-Ra) has revised Satia Industries Limited's (SIL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND A-'. 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	INR2,340.4 (reduced from INR2,856)	IND A-/Positive	Affirmed; Outlook revised to Positive from Stable
Fund-based bank facilities	-	-	-	INR850	IND A-/Positive/IND A2+	Affirmed; Outlook revised to Positive from Stable
Non-fund-based bank facilities	-	-	-	INR460	IND A-/Positive/IND A2+	Affirmed; Outlook revised to Positive from Stable
Term loans*	-	-	FY27	INR150	IND A-/Positive	Assigned

*The final rating has been assigned following the receipt of the final documentation, conforming to the information already received by Ind-Ra.

The Positive Outlook reflects Ind-Ra's expectation of a likely improvement in SIL's credit metrics, profitability and business profile in the medium term, owing to the completion of its ongoing capacity expansion in 2HFY22.

KEY RATING DRIVERS

Capex to Drive Volume Growth and Improve Product Profile: At FYE21, SIL had an existing capacity of 0.105 million tonnes per annum (MTPA), and the company is setting up an additional 0.1MTPA writing and printing (W&P) paper plant; the management expects the same to commence commercial production in December 2021. The management plans to spend close to INR4,000 million on the capex project, which is being funded by a mix of internal accruals and debt of INR2,500 million. SIL's scale of operations is medium and Ind-Ra expects it to improve further over the medium term with the ramp up of the enhanced capacity driving the volume growth.

SIL's product mix is moderately diversified, consisting a wide range of products. Maplitho paper and snow-white paper are the highest sale contributors, each accounting for 33% and 29% of the total sales in 9MFY21, followed by surface size (9%), copier (6%), cup stock (5%), colour printing (4%) paper. The management believes the upcoming capacity (70% wood pulp-based) will enable the company to manufacture a higher-quality paper in the copier paper segment, at par with the leading wood pulp-based manufacturers in the industry. Moreover, with new capacities coming on stream, SIL would be in a position to cater to any incremental demand from the state book boards. The management also expects a reasonable uptick in its operating margins over the medium-term, driven by the change in product mix in favour of Grade-1 copier paper and higher operational leverage.

To cater to the growing demand for high-margin paper cup and cutlery segment led by the government's initiatives of the prohibition on single-use plastic products, SIL plans to set up an additional 3,000MTPA capacity for this segment. The management estimates a peak revenue of INR600 million and EBITDA margins of 35%- 40% from this new vertical on a full-year basis, post the full-scale commercialisation of the project.

Strong Business Profile with Significant Integration: SIL is among India's leading manufacturers of W&P paper, comprising various quality, colour and grade 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 15-20 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 new 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 abundant availability of wheat straw, wood chips and veneer waste to meet the company's raw material requirements. In FY20, SIL procured 95% (FY19: 95%) of its raw material (wheat straw and wood chips) from 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. Moreover, SIL also has eucalyptus plantations coverage of 540 acres of land for effluent treatment and to supplement the company's future raw material requirements.

Healthy Market Share in the State's Textbook Segment: SIL continues to have a healthy market share of 10%- 15% in the state book boards market in India. The company has a long-standing relationship with the state textbook corporations for supplying high-quality watermark paper. The state 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.

Improvement in Margins Despite Fall in Volumes: Despite a sharp fall in demand, SIL's EBITDA margins improved yoy to 23.1% in FY21 (FY20:21.6%) on cost rationalisation measures undertaken and lower raw material costs. SIL's EBITDA, however, declined to INR1,361 million in FY21 (FY20: INR1,749 million) mainly due to a decline in volumes and lower average realisations led by a fall in the demand and plant shutdown in 1QFY21. Ind-Ra expects SIL's profitability to recover from FY22 on account of improving realisations and the ramp-up of the new capacity.

Net Leverage to Improve in FY22: SIL's net leverage (net debt excluding credit deposits/EBITDA) increased to 2.5x in FY21 (FY20: 1.5x) due to an increase in gross debt to fund the capacity expansion and decrease in the profitability. However, Ind-Ra expects the net leverage to reduce below 2x in FY22 and below 1x in FY23 due to the EBITDA generation from the new capacity.

SIL might undertake an additional INR1,000 million capex to install independent boilers to save on the power costs; however, the management will decide on the same post the completion of the W&P capex, after assessing the profitability and financial position of the company. Ind-Ra will continue to monitor the capex progress and its impact on the credit metrics.

Liquidity Indicator - Adequate: SIL's average fund-based working capital limit utilisation was about 83% for the 12-months ended March 2021. Its cash flows have demonstrated resilience during downturns, with the cash flow from operations remaining positive over the past nine years (FY21: INR1,371 million; FY20: INR1,305 million; FY19: INR1,466 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 out of 10 years (FY21: negative INR855 million; FY20: negative INR749 million) largely due to the continuous capex and is likely to remain so in the medium term on account of the planned capex. The company has repayment obligations of INR480 million and INR779 million in FY22 and FY23, respectively, which are likely to be funded by internal accruals. At FYE21, the company had cash and cash equivalent of INR7 million. SIL did not avail of the Reserve Bank of India- prescribed moratorium on its loans.

Increased Global Pulp Prices Could Aid Domestic Realisations: Global pulp prices, which rose sharply in 2017-18 before falling in 2020 due to the COVID-19 impact on the global paper demand, saw a sharp increase in 4QFY21, hitting the highest level since 2HFY20, aided by the closure of high-cost plants and sudden output cuts. After a fall in 9MFY21, domestic paper prices witnessed a sequential improvement in 4QFY21 on robust demand. While 1QFY22 has witnessed a fall in prices, a sustained increase in global pulp prices could impact the competitiveness of imports. Copier could see some pressure after December 2021, if the anti-dumping duty is not renewed.

Online Classes Impacted W&P Paper Volumes: SIL's revenue declined 27% yoy in FY21 to INR5,884 million, due to low paper demand as most educational institutions moved towards online classes along with the continued adoption of work-from-home by companies since March 2020. After a 37% yoy decline in 1QFY21, SIL's sales volumes recovered to near pre-COVID-19 levels in 3QFY21. However, 4QFY21 witnessed an uptick in demand with SIL reporting 2% yoy growth in the volumes, given the partial reopening of schools and dealer stock ups owing to the likely rise in paper demand in 1QFY22. Volumes in 4QFY21 were also supported by pent-up demand and could witness moderation in FY22 as this dissipates, given the possibility of delayed full-fledged school reopening across the country in light of the second wave of COVID-19 and the continued work-from-home culture.

However, Ind-Ra believes the fundamental demand prospect for paper remains stable over the medium term, given its under penetration across segments, particularly in education, which is bound to grow with an increase in the literacy rate. Furthermore, with growing consumerism and e-commerce, ban on plastic usage in several states, demand for cup stock and packaging paper is also likely to be healthy over the medium term. Copier paper, which has been a fast-growing segment historically, 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.

Profitability Vulnerable to Domestic Demand and Imports: Paper industry's profitability remains vulnerable to fluctuations in the realisations driven by domestic demand and imports scenario, which could prevent companies from passing on the increase in raw material prices. However, Ind-Ra derives comfort from limited capacity additions in the writing and printing segment as well as SIL's integrated nature of operations with minimal reliance on the imported raw material, thus mitigating the impact to certain extent.

RATING SENSITIVITIES

Positive: A steady growth in the scale and the profitability with diversified product mix, leading to the net leverage reducing below 2.25x, 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 sustaining above 2.25x, on a sustained basis, would lead to the Outlook being revised to Stable.

COMPANY PROFILE

SIL was incorporated in 1980 by Ajay Satia. It manufactures W&P paper at its 105,000 tonnes per annum manufacturing facility at Malout Road (Muktsar, Punjab).

FINANCIAL SUMMARY

Particulars	FY21	FY20
Revenue (INR million)	5,884	8,086
EBITDA (INR million)	1,361	1,749
EBITDA margin (%)	23.1	21.6
Interest coverage (x)	7.7	8.7
Net leverage (x)	2.5	1.5
Source: SIL		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	20 February 2020	4 April 2019	28 March 2018
Issuer rating	Long-term	-	IND A-/Positive	IND A-/Stable	IND A-/Stable	IND BBB+/Stable
Term loans	Long-term	INR2,490.4	IND A-/Positive	IND A-/Stable	IND A-/Stable	IND BBB+/Stable
Fund-based working capital limits	Long-term/Short-term	INR850	IND A-/Positive/IND A2+	IND A-/Stable /IND A2+	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2
Non-fund-based working capital limits	Long-term/Short-term	INR460	IND A-/Positive/IND A2+	IND A-/Stable /IND A2+	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2

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.

SOLICITATION DISCLOSURES

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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