



CIN: - L21012PB1980PLC004329

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

SIL/CS

Date: 03.03.2020

The Manager Listing Department BSE Limited Phiroze Jeejeebhoy Towers Dalal Street Mumbai-400001 Scrip Code: 539201	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 Symbol: SATIA
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**Subject: Submission of Rating Affirmed by India Rating & Research**

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) for affirming the credit rating of Satia Industries Limited to IND A-/stable for Term Loans, IND A-/stable/IND A2+ for fund based bank facilities and IND A-/stable/IND A2+for non fund based bank facilities and Provisional IND A-/stable for Proposed Term Loan.

This is for your information and record please.

Thanking you

Yours faithfully,  
For Satia Industries Limited

(Rakesh Kumar Dhuria)  
Company Secretary

## India Ratings Affirms Satia Industries at 'IND A-'/Stable; Limits Enhanced

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FEB 2020

By Anant Agarwal

India Ratings and Research (Ind-Ra) has affirmed Satia Industries Limited's (SIL) Long-Term Issuer Rating at '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	-	-	March 2027	INR1,506 (increased from INR1,420)	IND A-/Stable	Affirmed
Fund-based bank facilities	-	-	-	INR850	IND A-/Stable /IND A2+	Affirmed
Non-fund-based bank facilities	-	-	-	INR460	IND A-/Stable /IND A2+	Affirmed
Term loans	-	-	March 2029	INR1,350	IND A-/Stable	Assigned
Proposed term loan*	-	-	-	INR150	Provisional IND A-/Stable	Assigned

\*The final rating will be assigned following the final issuance and the receipt of the final documentation, conforming to the information already received by Ind-Ra.

### KEY RATING DRIVERS

**Strong Business Profile with Significant Integration:** SIL is among India's leading manufacturers of writing and printing (W&P) paper, comprising various quality, colour and grade of maplitho paper with a track record of four decades. Satia has an in-house pulp manufacturing facility to meet most of its pulp requirement. In FY19, SIL procured 95% (FY18: 95%) of its raw material (wheat straw and wood chips) from local catchment areas. It has captive power plants which fulfil its entire power requirement.

W&P paper, along with copier paper is one of the fastest-growing segments in the paper industry; Ind-Ra pegs the segment to clock 8%-10% annual growth rate. The segment, used in the printing of books, directories, envelopes, diaries, calendars, computer stationery and high class printing etc., is volume focused and moderately price-sensitive than other paper segments. 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 comparable to that of 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.

**Healthy Profitability in FY19:** SIL's EBITDA margin expanded to 22.2% in FY19 (FY18: 19%) due to improved realisations and decreased selling and other expenses. The average realisation peaked in 1QFY20 to INR64,449 and declined in the subsequent months. This lower realisation along with higher wheat straw (raw material) prices resulted in the margin moderating to 21.87% in 9MFY20 (9MFY19: 22.04%).

Although a reduction in the variable cost arrested a further margin contraction, Ind-Ra expects the margin to moderate further in FY21 owing to a continued lowering of realisations and higher input cost.

A reduction in imports due to increased global pulp prices coupled with a healthy domestic demand-supply balance enabled paper companies to increase prices, while improved raw material availability led to a decline in raw material costs, resulting in higher margins in the past two-to-three years. SIL has reported healthy profitability for the past 10 years; its 10-year average EBITDA margin of 15% and lowest level of around 8% are among the best in the industry.

**Liquidity Indicator - Adequate:** SIL's average fund-based working capital limit utilisation was about 84% for the 12-months ended December 2019. Its cash flows have demonstrated resilience during downturns, with the cash flow from operations remaining positive over the past nine years (FY19: INR1,466.11 million; FY18: INR965.15 million). Ind-Ra expects SIL's cash flow from operations, supported by healthy EBITDA margins and a moderate working capital cycle, to remain positive in the medium term, too. However, the company's free cash flow remained negative during the past seven out of 10 years (FY19: negative INR22.38 million; FY18: negative INR58.40 million) largely due to continuous capital expenditure and is likely to remain so in the medium term on account of the planned capex.

The company's working capital days improved to 75 in FY19 (FY18: 91) largely due to decreased debtors days owing to the management's continuous focus to recover bills in time in the past five years. The company has repayment obligations of INR524 million-621 million in FY20-FY22, which are likely to be funded by internal accruals. The company had cash and cash equivalent of INR9.5 million, as of end 2QFY20.

**Moderation in Industry Outlook:** After a strong upcycle in FY18-FY19, paper prices started to moderate in 2QFY20 on subdued global demand. Global pulp prices, which rose sharply between 2HFY17-1HFY19, have fallen sharply in the past nine-to-12 months; the resultant improvement in the competitiveness of foreign producers has increased the threat from imports for the domestic paper industry. However, factors such as limited domestic supply addition; the government's proactive measures to counter import threat; healthy domestic demand; and falling raw material prices continue to support the industry outlook.

Paper demand, driven by the growing consumerism and e-commerce; ban on plastic usage in several states; rising literacy and continued government spending on education, is likely to outpace planned supply additions in the next couple of years. Ind-Ra believes the raw material prices are likely to remain under check in the near term with increasing farm forestry and limited incremental demand. Besides, price hikes undertaken by the domestic paper manufacturers over the past one-to-two years provide a cushion to absorb the recent moderation in prices.

**Elevated Leverage Likely in FY21 and FY22:** SIL is setting up an additional 300 tonne per day W&P paper plant, which is likely to commence commercial production in December 2021. The management expects the total project cost to be around INR4,000 million, funded by a mix of internal accruals and debt (INR2,500 million). Ind-Ra expects the capex to lead to a significant increase in SIL's debt over the next two-to-three years, resulting in net leverage (net adjusted total debt/EBITDA) to remain around 3x in FY21 (FY19:1.76; FY18: 2.32), post which it is likely to reduce to around 1.45x in FY23 due to EBITDA generation from the new capacity.

**Cyclical Industry:** The paper industry is cyclical in nature and incumbents are exposed to volatility in raw material prices, as well as threat of imports, which could prevent companies from passing on the increase in raw material prices. Additionally, 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 weakening of profit margins.

## RATING SENSITIVITIES

**Positive:** Sustenance of EBITDA at the current level and leverage being maintained below 3x on a sustained basis, along with timely capex execution would lead to positive rating action.

**Negative:** Lower-than-expected profitability and/or time or cost overruns in new capacities, leading to net adjusted leverage exceeding 3x beyond FY21 on a sustained basis could result in a negative rating action.

## COMPANY PROFILE

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

## FINANCIAL SUMMARY

Particulars	FY19	FY18
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Revenue (INR million)	7,384	6,421
EBITDA (INR million)	1,640	1,218
EBITDA margin (%)	22.21	18.97
Interest coverage (x)	7.89	5.13
Net leverage (x)	1.76	2.32
Source: SIL, Ind-Ra		

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	4 April 2019	28 March 2018	3 March 2017
Issuer rating	Long-term	-	IND A-/Stable	IND A-/Stable	IND BBB+/Stable	IND BBB/RWE
Term loans	Long-term	INR3,006	IND A-/Stable	IND A-/Stable	IND BBB+/Stable	IND BBB/RWE
Fund-based working capital limits	Long-term/Short-term	INR850	IND A-/ Stable /IND A2+	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/RWE/IND A3+/RWE
Non-fund-based working capital limits	Long-term/Short-term	INR460	IND A-/ Stable /IND A2+	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/RWE/IND A3+/RWE

## COMPLEXITY LEVEL OF INSTRUMENTS

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

## SOLICITATION DISCLOSURES

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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.

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## Applicable Criteria

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[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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## Analyst Names

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[Primary Analyst](#)

**Anant Agarwal**

Senior Analyst

India Ratings and Research Pvt Ltd DLF Epiteome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurgaon

Haryana 122002

0124 6687271

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[Secondary Analyst](#)

**Aditya Popuri**

Analyst

+91 11 43567266

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[Committee Chairperson](#)

**Abhishek Bhattacharya**

Director and Co Head Corporates

+91 22 40001786

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[Media Relation](#)

**Ankur Dahiya**

Manager – Corporate Communication

+91 22 40356121

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