CIN: - L21012PB1980PLC004329

SIL/CS

Date: 12.08.2022

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 Upgraded -Satia Industries Limited to "IND A" by India Ratings & 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 and upgraded 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 A1 for fund-based bank facilities and IND A/ Positive /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)
Company Secretary

IndiaRatings & Research
A Fitch Group Company

India Ratings Upgrades Satia Industries to 'IND A'; Outlook Positive

Aug 11, 2022 | Consumer / Retail

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 Positive. 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	INR3,366.8 (increased from INR2,340.4)	IND A/Positive	Upgraded
Fund-based bank facilities	-	-	-	INR850	IND A/Positive/IND A1	Upgraded
Non-fund-based bank facilities	-	-	-	INR 600 (increased from INR460)	IND A/Positive/IND A1	Upgraded
Term loans*	-	-	FY28	INR370	IND A/Positive	Assigned

* yet to be sanctioned

The upgrade reflects the improvement in SIL's scale and business profile in FY22, owing to the completion of its capacity expansion in 2HFY22. The Positive Outlook reflects Ind-Ra's expectation of an improvement in SIL's credit metrics in the near to medium term, as the company deleverages itself with the ramp-up of the expanded capacity.

Key Rating Drivers

Significant Increase in Scale with Capex Completion; Product Profile to Improve: SIL doubled its production capacity to 2,05,000 tonnes per annum (MTPA) from 1,05,000 MTPA in February 2022, leading to a significant increase in the company's scale as well as market position. The production from the enhanced capacity would drive volume growth over the near-to-medium term, given the full utilisation of its existing facility in the past few years. The expansion could also improve the company's product profile by increasing the proportion of high-quality wood-based paper to 40% (from 25%). SIL's product mix is moderately diversified, consisting of products with diverse end-uses. Maplitho paper and snow-white 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%), cup stock (3%) paper. The new capacity could enable the company to manufacture a higher-quality copier paper in addition to catering to incremental demand from state education boards. The management also expects a reasonable uptick in its operating margins over the medium term, driven by the change in product and higher operational leverage.

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 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 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 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.

Demand Rebound in FY22; New Capacity led Sharp Growth Likely in FY23: 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. SIL's sale volumes grew 21% yoy, with the company selling 143,605mt which was 8% higher than the pre-covid level witnessed in FY20. Furthermore, the volumes grew 49% yoy in 1QFY23, led by the commencement of the new plant. The company also plans to increase its exports (FY22: 4% of revenue), given the opportunities created by a rise in demand for waste paper and pulp prices globally. The growth in volumes coupled with a 25% yoy jump in realisation to INR62/kg in FY22 (FY20: INR60.9/kg), resulted in over 50% yoy hike in the revenue to INR8,909 million. Realisations strengthened to over INR80/kg in 1QFY23 and are likely to remain strong in the near term led by a continued robust demand and input cost inflation.

EBITDA Margin to Remain Healthy despite Moderation: Despite the revenue growth, the EBITDA margins moderated to 20.3% in FY22 (FY21: 23.1%, FY20: 21.6%) as the increase in paper prices was offset by a sharp increase in the raw material costs. The margins declined further to 16.7% in 1QFY23 as the new plant was under stabilisation and the company used a higher proportion of waste paper owing to the ongoing upgradation of its pulp mill. However, post completion of the pulp mill upgradation in September 2022, the margins are likely to improve as the company produces more wood-based paper, while the increase in realisations is likely to offset the input cost inflation. 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.. Overall EBITDA increased 33% yoy to INR1.8 billion in FY22, aided by the volume growth. It is likely to achieve similar volume-led growth in FY23, as the new capacity ramps up.

Net Leverage to Improve in FY23: After remaining below 2x during FY18-FY20, SIL's net leverage (net debt excluding dealer deposits/EBITDA) had increased to 2.5x in FY21 (FY20: 1.5x) owing to the combined impact of the covid-led fall in EBITDA and an increase in debt to fund the capacity expansion of INR4 billion incurred over FY21-FY22. The net leverage improved marginally to 2.22x in FY22 (FY21: 2.52x), as the company completed its capex and the overall profitability improved on the back of higher volumes. SIL will undertake an additional INR3 billion-4 billion capex over the next three years for the modernisation of its pulp mill to improve yield and installation of a 75TPH boiler among others. However, Ind-Ra expects SIL's net leverage to further reduce to below 2x in FY23, due to the EBITDA generation from the new capacity. The EBITDA interest coverage improved to 8.7x in FY22 (FY21: 7.7x; FY20: 8.7x), and is likely to remain strong in the near-to-medium term. 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 66% for the 12 months ended June 2022. Its cash flows have demonstrated resilience during economic downturns, with the cash flow from operations remaining positive over the past nine years (FY22: INR1,601 million; 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 (FY22: negative INR791 million; FY21: negative INR855 million; FY20: negative INR749 million), largely due to the continuous capex. It is likely to remain so in the medium term on account of the planned capex. The company has repayment obligations of INR961 million and INR1,086 million in FY23 and FY24, respectively, which are likely to be funded by internal accruals. At FYE22, the company had cash and cash equivalent of INR11 million (FY21: 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; 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 low single digits 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.

Increased Global Pulp Prices Aid Domestic Realisations; Imports Key Monitorable: After falling in 2020 due to the covid impact on global paper demand, pulp prices have risen by around 50% in the past 12 months, surpassing the previous high witnessed in 2018. Waste paper prices also continued to rise in FY22, touching record levels, owing to a lower recovery in the waste paper segment and China policies. After falling 40% yoy in FY21, imports increased 6% yoy in FY22 as the rebound in pulp prices and high waste paper prices and ocean freight rates kept imports at bay. Sustained strong prices of pulp and paper could reduce import competitiveness, thereby limiting the threat of a rise in imports setting a cap on domestic prices in the near term. Besides, the sharp rise in waste paper prices has benefitted integrated players. Furthermore, Indian exports continued to benefit from the price rise and China's policy measures to combat pollution, which includes a ban on the import of waste paper since January 2021.

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: Steady growth in the scale and the profitability with a diversified product mix, leading to the net leverage reducing below 1.75x, 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 1.75x, 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 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			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	18 May 2021	20 February 2020	4 April 2019
Issuer rating	Long-term	-	IND A/Positive	IND A-/Positive	IND A-/Stable	IND A-/Stable
Term loans	Long-term	INR3736.8	IND A/Positive	IND A-/Positive	IND A-/Stable	IND A-/Stable
Fund-based working capital limits	Long-term/Short-term	INR850	IND A/Positive /IND A1	IND A-/Positive /IND A2+	IND A-/Stable /IND A2+	IND A-/Stable/IND A2+
Non-fund-based working capital limits	Long-term/Short-term	INR600	IND A/Positive/IND A1	IND A-/Positive/IND A2+	IND A-/Stable /IND A2+	IND A-/Stable/IND 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
Rishabh Soni
Analyst
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
022 40001758
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Khushbu Lakhotia
Associate Director
+91 33 40302508

Chairperson
Krishan Binani
Director
+91 22 40356162

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

APPLICABLE CRITERIA

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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