SIL/CS

Date: 08-04-2019

BSE Lid
BSE Limited, Floor 25,
P.J.Tower, Dalal Street,
Mumbai- 400001 (India)

Scrip Code: 539201

Subject: Submission of Rating Issued by India Ratings & Research

Dear Sir,

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

This is for your information and record please.

Thanking You,

Yours Faithfully,
For Satia Industries Ltd

(Rakesh Kumar Dhuria)
Company Secretary

IndiaRatings & Research
A Fitch Group Company

India Ratings Upgrades Satia Industries to 'IND A-'/Stable

04

APR 2019

By Anant Agarwal

India Ratings and Research (Ind-Ra) has upgraded Satia Industries Limited's (SIL) Long-Term Issuer Rating to 'IND A-' from 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	March 2027	INR1,420 (increased from INR1,416)	IND A-/Stable	Upgraded
Fund-based bank facilities	-	-	-	INR850	IND A-/Stable/IND A2+	Upgraded
Non-fund-based bank facilities	-	-	-	INR460	IND A-/Stable/IND A2+	Upgraded

Ind-Ra has taken a standalone view of SIL for arriving at the ratings as the company had informed stock exchanges on 13 November 2018 that the proposed merger between SIL and one of its group companies - TC Spinners Private Limited has been called off.

KEY RATING DRIVERS

Large Scale; Revenue Growth: Overall revenue grew 12.49% yoy to INR6,420.73 million during FY18, supported by high capacity utilisation and improved price realisations. For 9MFY19, the company earned revenue of INR5,398.63 million.

Healthy and Improving Profit Margins: EBITDA/tonne improved 23.76% yoy during FY18 to INR10,769.70/tonne and further to INR13,012/tonne in 9MFY19, due to an increase in price realisation and sales volume and a decline in raw material and overhead costs as a percentage of the total cost, on account of a higher proportion of writing and printing paper products (hard-wood pulp) in the sales mix. EBITDA margin improved to 18.97% in FY18 (FY17: 15.93%) and further to 22% during 9MFY19. Absolute EBITDA increased to INR1,218.22 million in FY18 (FY17: INR909.38 million) and was INR1,189.88 million for 9MFY19. Return on capital employed stood at 16% during FY18 (FY17: 12%).

Strong and Improving Credit Metrics: Interest coverage (operating EBITDA/gross interest expenses) improved significantly to 5.13x in FY18 (FY17: 3.72x) due to the increased EBITDA levels and a decline in interest expenses. The overall debt levels declined during FY18, which led net leverage (adjusted net debt/operating EBITDA) also improving to 2.32x (FY17: 3.17x). Both coverage (9MFY19: 7.22x; 9MFY18: 3.63x) and leverage ratios are likely to have improved again in FY19 and may improve further till FY21 due to a continuous increase in EBITDA levels. Although leverage may exceed 3x beyond FY22 as the company is planning a large debt-led capex to double its installed capacity during FY21-FY22, it may come down in FY23 and beyond due to the increased capacity. Fixed cost coverage ratio is likely to remain range bound between 1.49x-2.18x in FY19-FY22.

Established Market Position: SIL has more than three decades of an operational track record. Revenue is driven by the tenders awarded by various government entities and education boards. It has a strong pan-India network through which it is able to bid and secure government tenders. Ind-Ra expects that paper companies will derive benefits on the back of an increasing demand from the education and corporate sectors, aided by higher GDP growth.

Moderate Liquidity: SIL`s cash flow from operations has remained positive since FY15 and stood at INR1,062.21 million in FY18 (FY17: INR1,018.71 million) due to high absolute EBITDA and low interest expenses. The company also reported positive free cash flow for FY17 and FY18 of INR369.45 million and INR152.15 million respectively; however, the agency expects it to have turned negative during FY19 because of the planned capex. SIL's 78% average peak fund-based working capital use over the 12 months ended February 2019 also reflects its moderate liquidity.

Moderation in Working Capital Cycle: SIL's working capital cycle remained moderate despite increasing to 73 days for FY18 (FY17: 66 days); however historically it was in the range of 100-160 days, mainly on account of high inventory and low creditors days.

Cyclical Industry; Price Fluctuations: Given the paper industry is cyclical, players are exposed to volatility in raw material prices and faced with the threat of imports, which could prevent companies to pass on increases in raw material prices. Additionally, lumpy capacity additions that are not commensurate with demand growth could exert upward pressure on raw material prices and downward pressure on finished product prices, leading to a weakening of the profit margins.

RATING SENSITIVITIES

Positive: Improvements in the revenue and operating profitability leading to net leverage to decline below 2.0x on a sustained basis may result in a rating upgrade.

Negative: The ratings may be downgraded in case of:
- weaker-than-expected profitability due to higher input costs/ pricing pressures/operational issues and/or unexpected large debt-funded capex, resulting in the net leverage exceeding 3.0x on a sustained basis
- any substantial financial support to related parties

COMPANY PROFILE

SIL was incorporated in 1980 by Mr. Ajay Satia. It manufactures writing and printing paper at its 105,000 MTPA manufacturing facility in Malout Road, Muktsar.

FINANCIAL SUMMARY

Particulars	FY17	FY18
Revenue (INR million)	5,707.85	6,420.73
EBITDA (INR million)	909.38	1,218.22
EBITDA margin (%)	15.93	18.97
Total debt (INR million)	2,881.66	2,843.04
Operating EBITDA/gross interest expenses (x)	3.72	5.13
Total adjusted net debt/operating EBITDA(x)	3.17	2.32
Source: SIL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch			
	Rating Type	Rated Limits (million)	Rating	28 March 2018	6 June 2017	3 March 2017	12 Feb 2016
Issuer rating	Long-term	-	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable	IND BBB/RWE	IND BBB/Stable
Term loans	Long-term	INR1,420	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable	IND BBB/RWE	IND BBB/Stable
Fund-based working capital limits	Long-term/Short-term	INR850	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/Stable/IND A3+	IND BBB/RWE/IND A3+/RWE	IND BBB/Stable/IND A3+
Non-fund-based working capital limits	Long-term/Short-term	INR460	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/Stable/IND A3+	IND BBB/RWE/IND A3+/RWE	IND BBB/Stable/IND A3+

COMPLEXITY LEVEL OF INSTRUMENTS

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

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.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency 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.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Anant Agarwal

Senior Analyst
India Ratings and Research Pvt Ltd 601-9 Prakashdeep Building 7 Tolstoy Marg New Delhi 110001
+91 11 43567271

Secondary Analyst

Aditya Popuri

Analyst
+91 11 43567266

Committee Chairperson

Abhash Sharma

Director
+91 22 40001778

Media Relation

Namita Sharma

Manager – Corporate Communication
+91 22 40356121