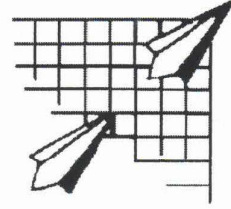


HARDOLI PAPER MILLS LTD.

Regd. Off. : "Krishna Kunj", 1st Floor, Bhavsar Chowk, C.A. Road, NAGPUR-440032.
Ph. (O) (0712) 2770168, 2770968, 2733846 E-mail : hardolipaper@gmail.com
CIN : L21010MH1995PLC085883



April 18, 2024

To,
The Branch Manager,
State Bank of India
SME Nagpur Branch

Dear Sir,

Re: Request for "Restructuring of Credit Facilities" of Hardoli Paper Mills Ltd.

We express our gratitude to the Bank for extending financial assistance to smoothly execute our business plans and expand ourselves to the current stature. We are currently enjoying various Credit Facilities to the tune of Rs. 20.21 crores sanctioned to the company vide Letter dt. 20.01.2024 no. SBI/RMSME/AR/2022-23/01.

Hardoli Paper Mills Limited (herein referred to as "company"), is engaged in the production of various grades of kraft papers, and related products primarily used in the packaging industry, particularly for the fabrication of corrugated boxes. The Company processes waste materials like kraft waste, white cuttings, and computer printouts into kraft paper, which is then utilized to create corrugated boxes for diverse packing needs, including envelopes and other packaging solutions.

The Company has its manufacturing unit in Nagpur and with a total strength of 153 employees (72 permanent and 81 contractual), the company has an annual production capacity of 45,000 metric tons.

Business update:

The Company has achieved a turnover of Rs. 104.28 crores and 57.99 crores for FY 2022-23 & 2023-24 respectively. There has been a substantial dip in the turnover of the Company due to implementation of the Co Gen project which got delayed as well as reduction in demand and the commodity prices which is evident from the reduction in quantities sold from 33750 MT to 23555 MT. The reduction in quantities coupled with the correction in prices has resulted in lower turnover in FY 2024. The last 2 years have been very challenging not only for the Company but for the entire paper industry. The company has reported a net loss of Rs. 4.98 crores (Cash loss of Rs. 3.17 crores) in FY 2022-23 and is expected to close FY 2023-24 at a Net loss of Rs 6.53 crores (Cash loss of Rs. 4.73 crores).

The Company has encountered significant financial challenges over the past two fiscal years, primarily attributed to intense competition and recessionary pressures within the paper market. The below factors have led to liquidity constraints and consecutive losses for the company.

1. The import purchase price of wastepaper exhibits inherent fluctuations within a 4-month procurement cycle. During the fiscal year, a reduction in price necessitated honouring previously agreed upon imported invoice rates, consequently inflating the average purchase price. This dynamic, compounded by the subsequent decline in import prices, adversely affects the market valuation of finished goods, precipitating a loss in revenue per unit. It becomes difficult to predict the international demand and supply of wastepaper. However, the company ensures that it purchases what is needed and does not overstock.
2. The escalating prices of fuel over the past two years can be attributed primarily to mining disruptions, resulting in shortages and necessitating additional expenditures. However, we expect that coal prices



WORKS : 42 KM., NAGPUR-AMRAVATI ROAD, VILLAGE HARDOLI, DIST. NAGPUR. MOB. 07972048894

will stabilize at a more reasonable level in the coming years, alleviating some of the financial strain incurred by these fluctuations.

3. The surge in electricity expenses observed over the last couple of years pose a considerable financial challenge, impacting overall profitability and budgetary allocations. However, the implementation of a Co-generation plant presents a promising opportunity for significant cost savings, potentially amounting to 2-3 crores per year which is expected to commence consistent power generation from Q2 of the current financial year i.e. 2024-25, though the commissioning is already done.
4. Overall market sentiments were sluggish over the past few years, due to subdued exports. Consequently, due to low demand mills were unable to pass on increased input cost as much as they would have liked to.
5. Last couple of years have been bad for the industry, and this cycle happens every few years. In fact, if one goes through our performance for the last 25 years, in every 3-4 years, results are less than desired.

Given the pandemic in 2020 and Ukraine war in 2022, the entire paper business community turned mindful of the supply chain scenario for 2023. The coal prices have also been impacted by Indonesia's decision to curb exports. The issue of a conspicuous shortage of basic raw materials together with their high cost has aggravated the pressure on the margins and the unviability of the operations in some cases also led to the closure of mills. The Indian paper industry is highly competitive, with several large and small players heavily concentrated in a single community. Price competition, coupled with increasing demand for high-quality paper products, affects the industry's profitability.

However, with the stabilization of market situation in the last quarter of the previous financial year and with the implementation of the turbine plant in the current financial year, the Company is expected to attain financial stability in the coming financial years. The market scenario is expected to improve by mid-FY25 when the Company expects to achieve a break-even point and operate in a no-profit no-loss situation. Overall, the Company expects to break even for the year and report operating profits for the entire year with an improvement in cash accruals.

The Company has invested in the Co-generation plant project since FY 2022 on which Bank has also provided Term Loan of Rs. 9.15 crores and a corporate loan of Rs. 3.00 crores. Project is expected to be effectively implemented and operating by end of Jun-24.

In the last 3 years, the company has invested Rs 21.83 crores in Capex (as provided herein), which majorly includes investment in Turbine Plant for which the Company was also sanctioned Term Loan from your Bank. The installation and implementation of the said project will result in more than 30% saving in its Power Cost.

Details of Capital expenditure incurred and Term Loan:

Rs. in crores

Year	Capex	Term Loan	GECL & Corp. Loan
FY 21	1.50	-	1.46
FY 22	5.37	2.17	0.72
FY 23	11.25	6.55	-
FY 24	5.21	0.36	2.90
Total	23.33	9.09	5.08



The company is also expected to reach a net turnover of Rs 87.36 crores in FY 25. The Company anticipates an increase in average monthly sales tonnage to 2800 MT with stabilization in its operations and with improvement in the export markets, will ensure that the demand and supply gap in India will be better.

You would appreciate that the Company has been a loyal customer since its inception, we have ensured that the Company pays its obligations to the Bank both on account of interest as well as installment.

Financial Performance:

The financial performance of the company over the period is as under:

Rs. in Lacs

Particulars	2021-22	2022-23	2023-24	2024-25	2025-26
	Audited	Audited	Provisional	Projected	Projected
Tonnage	32,531	33,750	23,555	33,600	36,000
Net Sales	11,145.89	10,428.74	5,797.38	8,736.00	9,540.00
EBITDA	277.70	(237.84)	(338.27)	408.26	578.13
% of EBITDA to net sales	2.49%	-2.28%	-5.83%	4.67%	6.06%
Net profit before tax	30.86	(497.75)	(653.36)	(76.92)	66.84
Net profit after tax	38.25	(377.30)	(488.91)	(57.56)	50.01
% Net profit after tax to sales	0.34%	-3.62%	-8.43%	-0.66%	0.52%
Net cash accruals	184.59	(316.93)	(472.55)	205.61	366.59
Total outside liabilities	2,358.89	3,231.26	3,486.96	3,719.23	3,509.81
Net fixed assets	2,483.28	3,398.75	3,737.37	3,553.99	3,240.09
Current assets	2,440.18	2,103.58	1,379.62	1,754.58	1,911.74
Current liabilities	1,756.97	1,982.82	2,331.00	1,788.67	1,810.85
Current ratio	1.39	1.06	0.59	0.98	1.06



Current Request:

Due to losses and temporary liquidity issues faced by the company considering the huge capital cost incurred in the last couple of years and due to unfavorable market conditions, the company wants to voluntarily initiate proceedings for restructuring of its advances in accordance with notification dated May 29, 2015, 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' (FRR for MSMEs) and respective guidelines issued thereby on March 17, 2016.

In accordance with the above guidelines, provisions of the above framework shall be applicable to MSMEs having loan limits up to Rs.25 crores. Further, MSME borrower may voluntarily initiate proceedings under the framework Subject to certain conditions mentioned therein.

In accordance with the framework & guidelines prescribed under the framework, the company is requesting the Bank to restructure our banking credit facilities based on the below points.

A. To renew Cash Credit limit at a reduced level of Rs. 6 crores:

The Company has a sanctioned cash credit limit of Rs. 9.00 crores. Considering the delay in our project implementation and due to a temporary reduction in the scale of operations of the Company we would request the Bank to kindly carve out Rs 3 crores from our existing sanctioned limit. Moreover, there is a reduction in the DP as well.

B. Sanction of Fresh term Loan of Rs. 6 crores towards the unfunded Capex done in last 3 years.

The Company has incurred losses in FY 2023 & FY 2024 while it has managed to honor the repayment obligations. Further, considering the overall timeline of the implementation of the co-generation plant, the Company had costs over-run for which it has not sought incremental loans till date other than the recent corporate loan of Rs. 3.0 crores. The Company has incurred a total Capex of 21.83 crores in the past 3 years. Out of which, company had sought term loan of Rs. 12.15 crores (7.75+1.4+3.0).

To ease out the cashflow position and streamline operational activities we seek a Term loan of Rs. 6.00 crores at a competitive rate of 9.50% with tenure of 7 years including 1 year of moratorium. The end use of the said loan will be partly towards the repayment of the Cash Credit limit which we have requested to carve out in the above point and the balance shall be utilized towards the working capital requirement of the Company.

(The existing and revised facilities are mentioned in Annexure -A)

C. Deferment of Term Loan repayments:

We would request the Bank to kindly restructure all our existing Term Loans (Except GECL) and reschedule its repayment obligation for further 7 years including one year moratorium with ballooning repayment which will allow the Company to concentrate on improving the operational efficiency of the Company without stressing much on the financial liability. It would not be out of place to mention that out of the total outstanding of Rs. 8.77 crores, the repayment in the next 3 years is Rs.7.14 crores, which will put additional pressure on liquidity.

(The existing and revised schedule payment is mentioned in Annexure-B)

D. Conversion of deferred interest into Fixed Interest Term Loan for 3 years.

We would also request the Bank to allow us an Interest holiday on the term loans for the next one year and conversion of interest due on Fund Based Working Capital Facilities as well as various Term Loans



for the month of April 2024 to March 2025 into interest free FITL for 3 years and start the repayment w.e.f. April 2025 (after one year moratorium).

(The existing and revised schedule payment is mentioned in Annexure-B)

E. Reduction in Interest rate and other concessions as mentioned in Annexure C.

Considering the weak financial position of the Company we would request the Bank to extend its support and provide us with various concessions as mentioned in Annexure-C.

Thus, we wish to reiterate our request as follows:

1. To Carve out Rs 3.0 crores from the current Cash Credit facility and renew the same at Rs 6.0 crores.
2. To consider one year interest and Principal repayment moratorium for the period from 1st April 20124 to 31st March 2025.
3. To re-schedule the earlier term loans and extend the same for 7 more years including one year moratorium as indicated in the above point.
4. To convert the interest charged during the moratorium period into interest free FITL for 3 years.
5. Sanction of fresh term loan of Rs 6.0 crores towards the unfunded capex done in last 3 years.
6. Consider the concessions requested in Annexure C of the said letter.

We are enclosing herewith the following for renewal of the limits:


- a) CMA data (projected Balance Sheet, Profit & Loss, Fund Flow Statement and Working Capital Assessment)
- b) Provisional Balance Sheet as on 31.03.2024.

We hope that the Bank would consider our request favorably and accede to the same at the earliest.

Thanking you

For Hardoli Paper Mills Limited.

For HARDOLI PAPER MILLS LTD



Director,

Managing Director
(Anilkumar M. Lahkhota)

ANNEXURE A:**1. Existing and proposed credit facilities.**

Nature of facility	Existing	Proposed
	Amount (Rs. in crores)	Amount (Rs. in crores)
Fund Based		
(A) Cash Credit	9.00	6.00
Sub Total (A)	9.00	6.00
(B) Term Loan		
Term Loan I	5.12	5.12
Term Loan II	1.19	1.19
Corporate Loan	3.00	3.00
GECL 1.0 under ECLGS	0.19	0.19
GECL 2.0 under ECLGS	0.71	0.71
Fresh TL/WCTL	-	6.00
FITL	-	1.40 (Approx)
Sub Total (B)	10.21	17.61
(C) Non-Fund Based		
Bank Guarantee	1.00	1.00
Sub Total (C)	1.00	1.00
Grand Total (A+B+C)	20.21	24.61



2. Collateral security against Credit facilities

(Rs. in Crores)

Facility	Security details	Existing	Proposed
	<u>Primary Security</u>		
CC LIMIT Bank Guarantee Corporate Loan	Hypothecation & 1st Charge on Stocks of Raw Materials, Finish Goods, WIP, Stores and spares, packing materials at Factory premises or at some other places inc. Goods in transit, O/s moneys, Book Debts & receivables.	10.79	10.79
	Total Primary Security	10.79	10.79
	<u>Collateral Security</u>		
Common For All Facilities	1.) Extension of EM of Factory Land & Buildings: Kh No. 31/1 & 31/2, Ringanboli, Katol, Nagpur	9.70	9.70
	2.) Extension of Commercial plot: Kh No. 20, Hardoli, Nagpur, Maharashtra.	0.86	0.86
	3.) Hypothecation of existing Plant and Machinery	23.54	27.19
Corporate Loan	Pledge of 538,805 promoter's shares (20.01%) Kailash Agarwal: 142,000 Anilkumar Lakhotiya: 142,000 Omprakash Rathi: 142,000 Jarnail singh Saini: 112,805	-	-
	Total Collateral Security	34.10	37.75
Common For All Facilities	Personal Guarantee of Promoter's 1. Kailash Agarwal 2. Anilkumar Lakhotiya 3. Omprakash Rathi 4. Jarnailsingh Saini		
	Total Security Coverage	44.90	48.54
	Total Exposure:	20.21	24.61
	Excl: GECL	(0.90)	(0.90)
	Exposure excluding GECL	19.31	23.71
	Collateral Security Coverage (times)	1.77	1.59



ANNEXURE B: The existing and revised schedule payment

Credit facilities	Sanctioned Amount	As at 31.03.2024	Original Repayment					
			2024-25	2025-26	2026-27	2027-28	2028-29	2029-30
TL 1	7.75	4.65	1.55	1.55	1.55			
TL2	1.40	1.12	0.28	0.28	0.28	0.28		
GECL 1	1.46	0.08	0.08					
GECL 2	0.73	0.65	0.24	0.24	0.16			
Corporate Loan	3.00	3.00	0.45	0.60	0.60	0.60	0.60	0.15
Total	14.34	9.50	2.60	2.67	2.59	0.88	0.60	0.15

Credit Facilities	Sanctioned Amount	O/s as on 31.03.2024	Revised Repayment						
			2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
TL 1	7.75	4.65	-	0.62	0.70	0.74	0.82	0.86	0.94
TL2	1.4	1.12	-	0.12	0.10	0.12	0.22	0.26	0.30
GECL 1	1.46	0.08	0.08	-	-	-	-	-	-
GECL 2	0.73	0.65	0.24	0.24	0.16	-	-	-	-
Corporate Loan	3.00	3.00	-	0.33	0.44	0.48	0.56	0.58	0.61
New Term Loan	6.00	6.00	-	0.24	0.48	0.60	1.20	1.44	2.04
ITL	1.40	1.40	-	0.47	0.47	0.47	-	-	-
Total	21.74	16.90	0.32	2.01	2.35	2.40	2.80	3.14	3.89



ANNEXURE C: Proposed reduction in Interest rate and other concessions

1. Interest Rates:

Facility	Rate of Interest / Commission	
	Existing Sanctioned	Proposed
Cash Credit Limit	10.25%	9.50%
Term Loans/ Corporate Loans	10.25%	9.50%
GECL Loans	9.25%	9.25%
New Term Loan	-	9.50%
FITL	-	-
Bank Guarantee	1.60% pa	1.25% pa

2. Margins

Facility	Existing	Proposed
For Cash Credit		
RM	25%	25%
FG	25%	25%
SFG	40%	25%
Receivables	40%	25%
Bank Guarantee	25%	10%

