

Press Release

Gayatrishakti Paper and Boards Limited

June 17, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 144.64 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) to the Rs. 144.64 crore bank facilities of Gayatrishakti Paper And Boards Limited (GPBL). The outlook is '**Stable**'.

Mumbai based GPBL incorporated in 1996 is promoted by the G.N. Agarwal group. The company manufactures and sells Premium Coated Paper Boards (duplex board) and operates via its units in Gujarat Industrial Development Corporation (GIDC) i.e. duplex board unit in Vapi and Kraft paper unit at Sarigam. The combined manufacturing capacity of the plants is 2,04,000 metric tonne per annum (MTPA). It sells its products through a dealership network to outlets. GPBL also has a duplex board unit operated under its associate company Kherani Paper Mills Private Limited (KPMPL) which caters to local market while GPBL caters to premium segment.

GPBL offers coated packaging board (grey back) that find its application in serial packing, toys, appliances, industrial packing, top liner on corrugated boxes, garment and shoe packing, medicine boxes, kitchen spices, book covers, and other products; and white back (silkia) that are used for dry fruit products, soaps and cosmetics packing, publication covers, among others. The company also provides blister pack board (grey and white back) that are used for tooth brush, shaving blades, toys, electronic items, and other applications; and playing cards.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GPBL for arriving at the rating.

Key Rating Drivers

Strengths

- Extensive experience of promoters with established position in the Paper Industry, diversified clientele and Established dealer network**

GPBL is the flagship company of the G.N. Agarwal group which has been engaged into manufacturing of Premium Coated Paper Boards (duplex board). The Chairman and Managing Director of the company Mr. G. N. Agarwal has been associated with the paper industry for more than three decades. The extensive experience of the promoters and the management has helped the company build strong market presence. GPBL has diversified presence on a pan-India basis with more than 150 distributor and dealer networks. The sales for duplex boards and kraft paper are through dealers to reputed clients for manufacturing of packaging products. GPBL has tied up with the printing companies who in turn carry out printing jobs for the end user. The company has a healthy relationship with the dealer over two decades that further reduces the counter party risk. GPBL has an advantage of the distribution network as dealers provide access to wide range of packing industries such as Food Products, Personal Care, FMCG products, Oral Care & Hygiene Products, e-commerce industry among others. Company caters to healthy portfolio of end consumers including AMUL, Hindustan Unilever Ltd, Colgate Palmolive India Ltd, Kellogg Company, Anchor Health and Beauty Care Pvt Ltd among others. Acuité believes that GPBL will continue to benefit from its experience in the Paper industry and established market presence through a healthy network of dealers and distributors. Also the business risk profile of GPBL will continue to derive support from strong dealer network.

- **Location advantage**

The company's manufacturing units are located in Vapi and Sarigam (Gujarat) which is one of the most developed Industrial Zone of Gujarat connected by rail and road. Also, the distance of both the mills from nearest port i.e. Adani Hazira port is 142 kms for Unit I in Vapi and 160 kms from Unit II in Sarigam. As the company imports waste paper and exports finished goods, the location of the units provides an advantage of low transportation cost upto the ports. The presence of unit in the Industrial Zone of Gujarat Industrial Development Corporation provides competitive advantage in terms of proximity to raw material, trained work force and marketing. Further, GPBL has a pan-India presence and caters to international markets through exports.

- **Moderate financial risk profile**

GPBL's financial risk profile is marked by healthy net worth, high gearing and average debt protection measures. The net worth of the company increased to Rs.139.56 crore as on 31 March, 2018 as against Rs.124.47 crore in the previous year on account of increasing revenues, leading to higher accretion to reserves. The company has followed an aggressive financial policy in the past, as reflected by its peak gearing of around 2.00 times as on March 31, 2017. The total debt of Rs. 279.48 crore consists of long term debt of Rs.202.39 crore, Rs.75.53 crore of short term debt obligations and Rs. 1.55 crore of unsecured loans.

The company's gearing is estimated to be high at 2.00 times as on 31 March, 2018 as against 2.14 times in the previous year. The moderate improvement in revenue levels has resulted in healthy net cash accruals of Rs.33.19 crore during 2016- 18, leading to average debt protection measures. The interest coverage ratio stood at 1.76 times in FY18 as against 1.73 times in the previous year. Decline in profitability during FY18 vis-à-vis FY17 is offset by improvement in the revenues from Rs. 542.18 crore to Rs. 653.72 crore, which has resulted in the cash accruals increasing from Rs. 20.71 crore in FY17 to Rs. 33.19 crore in FY18. The company has Rs. 0.60 crore of annual debt obligation for FY19 against which the accruals in the FY19 (Provisional) is around ~Rs. 41.04 crore. GPBL has refinanced its previous term loans with a new term loan of Rs. 200.00 crore from Piramal Finance Limited for which the repayment starts in FY21 which gives comfort to financial risk profile of the company. Debt/EBITDA stood high as on March 31, 2018 at 3.90.

Acuité believes that the debt protection indicators are expected to improve on the back of optimal utilisation of the recently improved capacities. The improvement in scale of operations, expected expansion in operating profitability margins coupled with the gradual repayment of the term debt obligation is likely to result in moderation of the Debt/EBITDA metrics.

- **Efficient working capital management**

The working capital management is marked by Gross Current Assets (GCA) of 132 days in FY2018 as against 131 days in FY2017. The company has established customers and its strong distribution network with almost 95% of the sales closed through dealers. The GCA days are dominated by credit extended to its dealer network of around 60 days and also maintains inventory of around 60 days on an average. The inventory and debtor levels stood at 56 days and 70 days in FY2018 as against 57 days and 64 days in FY2017, respectively. Acuité believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Weaknesses

- **Large capital requirement**

The business involves regular capex on facilities and innovation. Recently, GPBL completed a capex for its kraft paper division, pulp processing capacity of 550 TPD was installed while the installed capacity for drying and cutting kraft paper was around 250 - 300 TPD, which was subsequently increased to 400 TPD on December 2018. However, Acuité draws comfort from its healthy liquidity profile, as well as its low debt repayment obligations in near term. Acuité notes that the ongoing capex is being funded with long tenure term loans with up to a seven-year repayment period, besides a moratorium period of two years. Hence, despite the increase in annual repayment burden from FY2021, Acuité believes company's liquidity cushion, operating profits and cash accruals will be the key rating sensitivity factors.

- **Moderate operating margins; susceptibility to fluctuations in raw material prices**

Operating margins have remained moderate in the range of 10-12 percent during the past 4 years. The company reported an operating margin of 10.84 percent as on 31 March 2018, as against 12.8 percent in the previous year. The duplex board and kraft paper manufacturers in India are exposed

to the risk of volatility in waste paper prices, largely due to intense competition. On account of competitive pressures, players face challenges in passing on increased costs to end users. In addition, the profitability of players with power plants is exposed to fluctuation in the price of coal. Business risk profile will remain constrained by exposure to the downturn in the paper industry. The rise in the prices of duplex paper over that of waste paper is expected to be gradual, rendering the profitability susceptible to volatility in the price of paper.

• Exposure to intense competition

Competition from large and established players is intense in the fragmented packaging industry. This is because of low capital and technology requirements, and therefore, low entry barriers. Also, lead time to set up a unit is small at 12-18 months. Overcapacity and limited product differentiation add to the competitive pressure.

Liquidity position

GPBL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.8.00 to Rs. 33.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of ~Rs.0.60 to Rs. 24.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 40.00 - Rs.51.00 crore during 2019-21. The company's working capital operations are efficiently managed as marked by Gross Current Asset (GCA) days of 132 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.21 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.80 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual while its maturing debt obligations are estimated to be in the range of Rs. 10.00 to Rs. 20.00 crore

Outlook: Stable

Acuité believes that the outlook on GPBL's facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and moderate financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability largely facilitated through improvement in capacity utilisation. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	653.72	542.18	401.11
EBITDA	Rs. Cr.	70.83	64.14	44.13
PAT	Rs. Cr.	15.56	4.62	(3.92)
EBITDA Margin	(%)	10.84	11.83	11.00
PAT Margin	(%)	2.38	0.85	(0.98)
ROCE	(%)	12.44	12.45	17.08
Total Debt/Tangible Net Worth	Times	2.00	2.14	1.90
PBDIT/Interest	Times	1.76	1.73	1.62
Total Debt/PBDIT	Times	3.90	4.07	5.13
Gross Current Assets (Days)	Days	132	131	166

Status of non-cooperation with previous CRA (if applicable)

ICRA, vide its press release dated February 08, 2019 had denoted the rating of Gayatrishakti Paper and Boards Limited as 'ICRA BBB+ / ICRA A2+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00#	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00@	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.64\$	ACUITE A- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	14.75*	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.20^	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	20.05	ACUITE A2+

#EPC/PCFC/FBP/FCBD of Rs.23.00 crore sublimit of CC

*Letter of Comfort/Buyer's Credit of Rs.14.75 crore sublimit of LC

@ EPC/PCFC/PSC/PSCFC of Rs.25.00 crore sublimit of CC

^ATCBG/BC of Rs. 21.00 crore sublimit of LC

\$PC/FDBP/FUDP/BP/BD of Rs. 8.00 crore sublimit of CC

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About Acuité Ratings & Research:

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