PRESS RELEASE

Gayatrishakti Paper and Boards Limited

February 06, 2020

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 399.64 Cr. (Enhanced from Rs. 144.64 Cr.)
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A2+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the 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 crores bank facilities of Gayatrishakti Paper And Boards Limited (GPBL). The outlook is **'Stable'**.

Also, Acuité has assigned the long term rating of **'ACUITE A-' (read as ACUITE A minus)** to the Rs. 255.00 crores bank facilities of GPBL. The outlook is **'Stable'**.

Mumbai based GPBL incorporated in 1996 is promoted by the G.N. Agarwal group. The company manufactures Premium Coated Paper Boards (duplex board) & Kraft paper. It has manufacturing units located in Gujarat Industrial Development Corporation (GIDC) i.e. duplex board unit at Vapi and Kraft paper unit at Sarigam. The combined manufacturing capacity of the plants is 216000 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 toothbrush, shaving blades, toys, electronic items, and other applications; and playing cards.

Analytical Approach

Acuité has changed the rating approach of Gayatrishakti Paper And Boards Limited from standalone financial and business risk profile to consolidated business and financial risk profiles of Gayatrishakti Paper And Boards Limited and Kherani Paper Mills Private Limited, hereinafter referred to as G.N. Agarwal group. The consolidation is on account of common management, significant cross holdings, similar line of business and significant financial linkages among the two entities. Extent of consolidation is full.

Key Rating Drivers

Strengths

- **Extensive experience of promoters, established position in the paper industry and established dealer network**
  GPBL is the flagship company of the G.N. Agarwal group, which is 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 presence in the market. 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 dealers 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 extensive experience in the paper industry and established market presence through a healthy network of dealers and distributors. In addition, 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 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 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**

  The group's financial risk profile is marked by healthy net worth, high gearing and moderate coverage indicators. The net worth stood at Rs. 120.13 crore as on March 31, 2019 against Rs. 107.27 crore as on March 31, 2018. The gearing of the company improved to 2.88 times as on March 31, 2019 against 3.30 times as on March 31, 2018. Although, the company is undergoing debt funded capex of Rs. 40.00 crore, gearing is expected to improve further owing to healthy profitability in the near to medium term. The total debt of Rs. 346.46 crore as on March 31, 2019 comprises long-term loans from bank worth Rs. 260.11 crore, unsecured loans worth Rs. 9.05 crore and short-term working capital debt from the bank of Rs. 77.30 crore. Due to high interest cost and huge repayment obligations in the long term, coverage indicators stood moderate. Interest Coverage Ratio (ICR) has improved to 1.92 times for FY2019 against 1.76 times for FY2018. Similarly, Debt Service Coverage Ratio (DSCR) has improved to 1.85 times for FY2019 against 1.19 times for FY2018. The Debt / EBITDA stood at 3.41 times in FY2019 against 4.31 times in FY2018 indicating improvement in operational performance. Further, the net cash accruals of the group stood healthy in the range of Rs. 24.00 – Rs. 46.00 crore for the last three years through FY2017 – FY2019 against minimal debt repayment obligations. This has reduced reliance on external debt to a large extent.

  Acuité believes that the financial risk profile of the group will continue to improve in the near to medium term backed by healthy revenue levels, improvement in profitability and healthy net cash accruals.

- **Efficient working capital management**

  The working capital management of the group is efficient marked by Gross Current Assets (GCA) of 99 days in FY2019 as against 132 days in FY2018. The group has established customers and its strong distribution network with around 90% of the sales closed through dealers. The GCA days are dominated by credit extended to its dealer network of around 30 - 60 days. Inventory majorly includes raw material and work in progress. Since the production is order based, finished goods inventory is low. The inventory and debtor levels stood at 34 days and 62 days in FY2019 as against 57 days and 70 days in FY2018, respectively. Acuité believes that the efficient working capital management will be crucial to the group in order to maintain a stable credit profile.

Weaknesses

- **Large capital requirement**

  The business involves regular capex on facilities and innovation. GPBL has been undergoing capex from time to time to increase its capacity and upgrade technology. GPBL has increased its kraft paper manufacturing capacity from 90000 MTPA to 144000 MTPA over the last four years. The same is expected to increase to 180000 MTPA in the near term.
  Acuité draws comfort from the group's comfortable liquidity profile, as well as its low debt repayment obligations in near term. Acuité notes that the capex has been 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 Q2 FY2021, Acuité believes the company has sufficient

liquidity cushion, operating profits and cash accruals for capital requirements.

- **Susceptibility of margins to fluctuations in raw material prices**
  Operating margins of the group have remained moderate in the range of 10~12 percent during the past 3 years. The company reported an operating margin of 12.30 percent during FY2019, as against 10.62 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 prices 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, the lead time to set up a small unit is low at 12-18 months. Overcapacity and limited product differentiation add to the competitive pressure. However, the group has been able to sustain and improve its operational performance over the years.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

1. DSCR >= 1.20 times.
2. TOL / TNW <= 2.75 times.
3. Net FA / Term Debt >=1.50 times.
4. Net Debt / EBITDA < 3.50 times.

Liquidity Position: Adequate

The group has adequate liquidity marked by healthy net cash accruals in the range of ~Rs. 24.00 – Rs.46.00 crores against minimal debt obligations during the last three years. Major debt repayment obligations will begin only from second quarter of FY2021 due to moratorium period. The working capital operations are efficiently managed marked by gross current asset (GCA) days of 99 in FY2019 as compared to 132 days in FY2018. The working capital facilities of the company remained utilized at ~75 per cent during the last six months period ended December 2019. The unencumbered cash and bank balances stood at Rs. 0.22 crore as on March 31, 2019. The current ratio stood at 1.97 times as on March 31, 2019. Acuité believes that the liquidity of the company will further improve on account of increasing net cash accruals sufficient to service maturing debt obligations and improving financial risk profile.

Outlook: Stable

Acuité believes that the group will maintain a stable outlook over the near to medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while maintaining profitability margins, improvement in capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue, profit margins or deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital or capex requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	817.85	761.55
PAT	Rs. Cr.	19.97	16.93
PAT Margin	%	2.44	2.22
Total Debt / Tangible Net Worth	Times	2.88	3.30
PBDIT / Interest	Times	1.92	1.76

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing entities - http://acuite.in/view-rating-criteria-4.htm
- Consolidation of companies - https://www.acuite.in/view-rating-criteria-60.htm

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

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-Jun-2019	Cash Credit	Long Term	36.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	18.64	ACUITE A- / Stable (Assigned)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Assigned)

*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 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.64	ACUITE A- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.20	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.05	ACUITE A2+ (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A- / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A- / Stable (Assigned)

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About Acuité Ratings & Research:
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