

## Press Release

### Gayatrishakti Paper and Boards Limited

September 02, 2021



### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.399.64 Cr.
<b>Long Term Rating</b>	ACUITE A-/Outlook: Stable (Reaffirmed & Assigned)
<b>Short Term Rating</b>	ACUITE A2+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned and reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and reaffirmed the short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.399.64 crore bank facilities of Gayatrishakti Paper and Boards Limited (GPBL). The outlook is '**Stable**'.

#### About the rated entity

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 252000 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 a 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 (silgia) that are used for dry fruit products, soaps and cosmetics packing, publication covers, among others. The company also provides a blister pack board (grey and white back) that are used for a toothbrush, shaving blades, toys, electronic items, and other applications; and playing cards.

#### About the group company

Mumbai based KPMPL is promoted by the G.N. Agarwal group and is engaged in the manufacturing of duplex board. The company was incorporated in 1988 and has its factory situated at Vapi, Gujarat and registered office at Mumbai, Maharashtra. KPMPL manufactures Duplex Boards in different grammages ranging from 180 GSM to 550 GSM. The manufacturing capacity of the plant is 36,000 metric tonne per annum (MTPA).

#### Analytical Approach

To arrive at the rating, Acuite has consolidated the business and financial risk profiles of Gayatrishakti Paper and Boards Limited (GPBL) and KPMPL, hereinafter referred to as G.N. Agarwal group. The consolidation is on account of common management, significant cross-holdings, a similar line of business and significant financial linkages among the two entities. Extent of consolidation: 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 and KPMPL have 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 and KPMPL have tied up with the printing companies who in turn carry out printing jobs for the end user. The group has a healthy relationship with the dealers over two decades that further reduces the counter party risk. The group 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. The group 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.

Acuite believes that the group 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 the group will continue to derive support from strong dealer network.

- **Location advantage**

The group'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 group 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 GIDC provides competitive advantage in terms of proximity to raw material, trained work force and marketing. Further, the group has a pan-India presence and caters to international markets through exports.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by healthy net worth, high gearing (debt to equity ratio) and moderate debt protections metrics. The net worth of the group is moderate at around Rs.160.33 crores as on 31 March, 2021 (Prov.) as against Rs.129.79 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years on account of healthy accretion to reserves. Gearing is high at 2.49 times as on 31 March, 2021 (Prov.) as against 2.89 times as on 31 March, 2020. The total debt of 398.65 crore as on 31 March, 2021 (Prov.) consists of long term debt of Rs.269.01 crore, short term debt of Rs.113.61 crore and unsecured loans from promoters of Rs.16.04 crore. TOL/TNW stood at 3.94 times as on 31 March, 2021 (Prov.) as against 4.55 times as on 31 March, 2020. Debt protection metrics are moderate marked by interest coverage ratio and DSCR stood at 2.44 times and 1.48 times in FY2021 (Prov.) as against 1.93 times and 1.61 times for FY2020 respectively.

Acuite believes that the financial risk profile of the group is expected to remain at the same level over the medium term.

## **Weaknesses**

- **Intensive working capital operations**

The working capital management of the group is intensive marked by Gross Current Asset (GCA) days of 122 days in FY2021 (Prov.) as against 103 days in FY2020. The elongation in GCA days are due to high receivables period of 70 days in FY2021 (Prov.) as against 62 days in FY2020. Inventory days stood at 41 days in FY2021 (Prov.) as against 36 days in FY2020. However, the average bank limit utilization remained moderate at around 46-70 percent for the past trailing 6 months ended June 2021.

Acuite believes that efficient working capital management will be crucial to the group in order to maintain a healthy risk profile.

- **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 90,000 MTPA to 1,44,000 MTPA over the last four years. The same is expected to increase to 1,80,000 MTPA in the near term. Acuite notes that the capex has been funded with long term loans with up to a seven-year repayment period. Hence, despite the increase in annual repayment burden,

Acuite believes the group 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 12~13 percent during the past 3 years. The group reported an operating margin of 13.17 percent in FY2021 (Prov.) as against 13.29 percent in FY2020 and 12.30 percent in FY2019. 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**

- Significant improvement in operating performance.
- Any elongation of the working capital cycle leading to deterioration in financial risk profile.

#### **Material Covenants**

1. DSCR  $\geq$  1.20 times.
2. TOL / TNW  $\leq$  2.75 times.
3. Net FA / Term Debt  $\geq$  1.50 times.
4. Net Debt / EBITDA  $<$  3.50 times.

#### **Liquidity Position: Adequate**

The group has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.35.00-57.00 crore during the last three years through 2019-2021, while its maturing debt obligations in the range of Rs.1.39-34.00 crore over the same period. The working capital operations of the group are intensive marked by gross current asset GCA days of 122 days in FY2021 (Prov.) as against 103 days in FY2020. The group maintains unencumbered cash and bank balances of Rs.12.50 crore as on March 31, 2021 (Prov.). The current ratio stands at 0.98 times as on March 31, 2021 (Prov.) as against 1.12 times as on March 31, 2020. The average bank limit utilization remained high at around 46-70 percent for the past trailing 6 months ended June 2021.

#### **Outlook: Stable**

Acuite 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 a 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	812.32	790.75
PAT	Rs. Cr.	30.55	9.68
PAT Margin	(%)	3.76	1.22

Total Debt/Tangible Net Worth	Times	2.49	2.89
PBDIT/Interest	Times	2.44	1.93

**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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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/view-rating-criteria-55.htm>

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
31-Aug-2020	Cash Credit	Long term	36.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	30.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	18.64	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Term Loan	Long term	200.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	55.00	ACUITE A-/Stable (Assigned)
06-Feb-2020	Cash Credit	Long term	36.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	30.00	ACUITE A-/Stable (Reaffirmed)
	Cash Credit	Long term	18.64	ACUITE A-/Stable (Reaffirmed)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Term Loan	Long term	200.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long term	55.00	ACUITE A-/Stable (Assigned)
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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00#	ACUITE A- / Stable (Reaffirmed)
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00@	ACUITE A- / Stable (Reaffirmed)
Punjab National Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.64\$	ACUITE A- / Stable (Reaffirmed)
Axis Bank	Term Loan	Dec-2019	8.70%	Dec-2027	102.50	ACUITE A- / Stable (Reaffirmed)
HDFC Bank	Term Loan	Dec-2019	9.10%	Dec-2027	97.50	ACUITE A- / Stable (Assigned)
IDFC First Bank	Term Loan	Dec-2019	9.60%	Dec-2027	25.00	ACUITE A- / Stable (Assigned)
Aditya Birla Finance Limited	Term Loan	Dec-2019	9.85%	Dec-2027	30.00	ACUITE A- / Stable (Reaffirmed)
Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	14.75	ACUITE A2+ (Reaffirmed)
IDBI Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.20	ACUITE A2+ (Reaffirmed)
Punjab National Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.05	ACUITE A2+ (Reaffirmed)

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

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

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

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**About Acuite Ratings & Research:**

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