

Press Release
GAYATRISHAKTI PAPER AND BOARDS LIMITED
June 02, 2023
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	377.25	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	60.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	437.25	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**Acuite A-**' (read as '**Acuite A minus**') and its short-term rating of '**Acuite A2+**' (read as '**Acuite A two plus**') on the Rs. 437.25 crore bank facilities of Gayatrishakti Paper and Boards Limited (GPBL). The outlook is '**stable**'.

Reason for rating reaffirmation

The rating reaffirmation factors expected an improvement in the business and financial risk profile of the group with the commencement of the tissue manufacturing unit, leading to diversification of the revenue stream, steady state operations, and efficient working capital management. The above-mentioned rating strengths are partly offset by the average financial risk profile, which is likely to witness marginal deterioration over the medium term, and the susceptibility of operating margins to volatility in raw material prices.

About Company

The Mumbai-based GPBL, incorporated in 1996, is promoted by the G.N. Agarwal group. The company manufactures premium coated paper boards (duplex board) and Kraft paper. It has manufacturing units located in the Gujarat Industrial Development Corporation (GIDC), i.e., a duplex board unit at Vapi and a Kraft paper unit at Sarigam. The total capacity is 252,000 metric tonnes 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 the premium segment. GPBL offers coated packaging board (grey back) that finds 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 (silvia) that is used for dry fruit products, soaps and cosmetics packing, publication covers, among others. The company also provides a blister pack board (grey and white) that is used for a toothbrush, shaving blades, toys, electronic items, and other applications; and playing cards.

About the Group

Mumbai-based KPMPL is promoted by the G.N. Agarwal group and is engaged in the manufacturing of duplex boards. The company was incorporated in 1988 and has a factory situated in Vapi, Gujarat, and a registered office in Mumbai, Maharashtra. KPMPL manufactures duplex boards in different grammages, ranging from 180 GSM to 550 GSM. The manufacturing capacity of the plant is 42,000 metric tonnes per year (MTPA). Further, the

group also consists of the new company, Gayatrishakti Tissue Private Limited (GTPL), which was incorporated in 2022 and is currently undertaking a project to set up a manufacturing unit for virgin and non-virgin tissue papers.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

To arrive at the rating, Acuité has consolidated the business and financial risk profiles of Gayatrishakti Paper and Boards Limited (GPBL), Kherani paper and mills private limited (KPMPL) and Gayatrishakti Tissue Private Limited (GTPL), hereinafter referred to as G.N. Agarwal group. The consolidation is on account of common management, significant crossholdings, a similar line of business and significant financial linkages among the three entities

Key Rating Drivers

Strengths

Augmentation of profitability and diversification of revenue streams with new capex

The revenue of the group improved and stood at Rs. 1333.81 crore in FY23 (prov), compared to a revenue of Rs. 1289.77 crore in FY22. The increase in revenue is mainly due to the increase in the price realisation for the products. The revenue of the group has remained range-bound around the current revenue levels as the existing capacity has remained utilised in the range of 90–100% for the last three years through FY 2023. The group, however, has now undertaken a capital expansion plan to set up a tissue manufacturing unit with a capacity of 36,000 TPA. This capacity is expected to lead to incremental revenues in the range of Rs. 200–250 crore in its first full year of operation. The capacity for the same is expected to be completed by H1FY25, and the additional revenues are likely to accrue from FY2025 onwards. The company plans to export 50% of the produce from the new unit.

The profitability of the group has also remained range-bound over the last two years through FY 2023. While the group has demonstrated the ability to pass on the increase in raw material prices to the end customers, the profitability per tonne has remained in the range of Rs. 4,000–4,300 per MT over the last three years through FY 2023. Acuite expects the new tissue manufacturing capacity to contribute significantly to the group's profitability, as the profitability per tonne for tissue manufacturing units is estimated to remain in the range of Rs. 15,000–18,000 per MT. This is likely to result in a better operating margin for the group.

Extensive experience of the promoters, an established position in the paper industry, and an established dealer network.

GPBL is the flagship company of the G. N. Agarwal group, which is engaged in the manufacturing of premium coated paper boards (duplex boards). 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 a strong presence in the market. GPBL and KPMPL have a diversified presence on a pan-India basis, with more than 150 distributor and dealer networks. The sales of duplex boards and kraft paper are made through dealers to reputed clients for the manufacturing of packaging products. GPBL and KPMPL have tied up with the printing companies, which in turn carry out printing jobs for the end user. The group has had a healthy relationship with the dealers for two decades, which further reduces the counterparty risk. The group has the advantage of the distribution network, as dealers provide access to a wide range of packing industries such as food products, personal care, FMCG products, oral care and hygiene products, and the e-commerce industry, among

others. The group caters to a healthy portfolio of end consumers, including AMUL, Hindustan Unilever Ltd., Colgate Palmolive India Ltd., Kellogg Company, and Anchor Health and Beauty Care Pvt. Ltd., among others. Acuité 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 a strong dealer network.

Working capital and efficient operations

The group's operations are working capital efficient, as reflected by the GCA days that have remained in the range of 90–100 days over the last three years. The inventory days stood at 42 days for FY23 (prov) against 31 days for FY22. The company receives advance orders, and hence the inventory is stocked up on the basis of the advance orders received, thereby partly mitigating commodity price risk. Average inventory holding days are around 30–45 days. The debtor days improved and stood at 46 days for FY23 (Prov) as against 56 days for FY22. The average credit period allowed to customers is around 45–55 days. The average utilisation of the working capital limits of the company stood at 75 percent in the last six months ended March '23 for KPML and 75 percent in the last six months ended March 23 for GPBL. Acuité believes that the ability of the group to maintain efficient working capital management will remain a key rating sensitivity in the medium term.

Weaknesses

Average financial risk profile

The group's financial risk profile is average, marked by healthy net worth, moderate debt levels, and average debt coverage indicators. The tangible net worth of the group stood at Rs. 242.32 crore as of March 31, 2023 (prov). The net worth has improved from Rs. 152 crore in FY 2021 as a result of healthy accretion to reserve and an equity infusion of Rs. 40 crore in FY 2023 as part of the group equity contribution towards the new capacity expansion. The group is currently undertaking capex of Rs. 265 crore to install a tissue manufacturing unit under a new entity, GTPL. The capex will lead to a new tissue manufacturing capacity of 36,000 TPA. The capex is expected to be completed by September 2024. The capex is funded by a term loan of Rs. 210 crore and equity of Rs. 55 crore (of which Rs. 40 crore has already been infused). The group has followed a moderately aggressive financial policy in the past, and its debt/EBITDA levels have consistently remained upwards of 3.75 times over the last three years through FY 2023. The peak gearing levels have also remained high at around 2.63 times as of March 31, 2021. The capex is likely to lead to a moderate deterioration in the leverage and coverage indicators over the medium term. Acuite expects the peak debt/EBITDA levels to remain within 4.2–4.5 times over the medium term and gradually decline once the capacity comes onstream. A project of this magnitude remains sensitive to cost and time overruns. While the capex is critical for the group to improve its business and financial risk profiles, any unexpected increase in leverage levels or delay in the commencement of capacity is likely to impart a negative basis to the rating.

The coverage indicators are also expected to moderate marginally over the medium term in line with incremental debt levels. The interest coverage ratio is expected to remain below 3.0 times over the medium term, and the debt service coverage ratio is expected to moderate to around 1.2 times. Acuite believes that the scope for further moderation in the coverage indicators is limited, and any incremental deterioration is likely to impart a negative bias to the rating.

Susceptibility of margins to fluctuations in raw material prices

The duplex board and kraft paper manufacturers in India are exposed to the risk of volatility in wastepaper prices, largely due to intense competition. On account of competitive pressures, players face challenges in passing on increased costs to end users. This is reflected by the decline in the operating profit margins to 8.57 percent for FY23 (prov) compared to 8.45 percent for FY22 as against 13.00 percent for FY21. The business risk profile will remain constrained by exposure to the downturn in the paper industry. The rise in the price of duplex paper over that of wastepaper is expected to be gradual, rendering profitability susceptible to volatility in the price of paper.

Rating Sensitivities

Significant improvement in operating performance while maintaining the margins.
Deterioration in the financial risk profile.
Stretch in the liquidity position of the group.

Material Covenants

None

Liquidity position: Adequate

The group has an adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.67.84 crore in FY23 compared against maturing debt obligations of Rs.48.99 crore over the same period. The cash accruals of the company are estimated to remain around Rs.71.04-116.68 crore during the 2024-26 period while its matured debt obligations is estimated to be in the range of Rs.67.33-86.47 crore during the same period. The average utilization of the working capital limits of the company stood at ~75 percent in the last six months ended March' 23 for KPML and ~75 percent in last six months ended March'23 for GPBL. The group maintains unencumbered cash and bank balances of Rs.14.28 crore as on March 31, 2023, and the current ratio also stood at 0.92 times as on March 31, 2023.

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 of the group. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while maintaining profitability margins, improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case of a delays in implementation of capex or higher than anticipated debt levels leading to deterioration in financial risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1333.81	1289.77
PAT	Rs. Cr.	43.59	27.53
PAT Margin	(%)	3.27	2.13
Total Debt/Tangible Net Worth	Times	1.90	2.30
PBDIT/Interest	Times	2.88	2.57

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

None

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Sep 2022	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	13.61	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	25.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Working Capital Demand Loan	Long Term	2.38	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	42.62	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	107.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	18.64	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	36.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	77.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	24.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
19 Sep 2022	Term Loan	Long Term	107.50	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Working Capital Demand Loan	Long Term	13.61	ACUITE BBB+ Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.38	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Cash Credit	Long Term	36.00	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Cash Credit	Long Term	30.00	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	18.64	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	42.62	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	24.00	ACUITE BBB+ Stable (Assigned)
	Term Loan	Long Term	77.50	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Term Loan	Long Term	25.00	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
		Long		

02 Sep 2021	Term Loan	Term	25.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	102.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	97.50	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	18.64	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	36.00	ACUITE A- Stable (Reaffirmed)
31 Aug 2020	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	55.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	18.64	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	200.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	36.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)
06 Feb 2020	Cash Credit	Long Term	36.00	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	18.64	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	55.00	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	14.75	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	20.05	ACUITE A2+ (Reaffirmed)
	Letter of Credit	Short Term	25.20	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	200.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	36.00	ACUITE A- Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.64	ACUITE A- Stable Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.75	ACUITE A2+ Reaffirmed
IDBI Bank Ltd.	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.20	ACUITE A2+ Reaffirmed
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.05	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	31.28	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	66.25	ACUITE A- Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	93.64	ACUITE A- Stable Reaffirmed
Bajaj Finserv Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	36.44	ACUITE A- Stable Reaffirmed
Axis Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	24.00	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	16.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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