Press Release

Kaygaon Paper Mills Private Limited

February 17, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 40.08 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 40.08 crore bank facilities of KAYGAON PAPER MILLS PRIVATE LIMITED (KPPL).

Aurangabad-based KPPL was incorporated in 1989. The board of directors consist of Mr. Omprakash Rathi, Mr. Akshay Rathi, and Mr. Hemant Kunte. The company is engaged in manufacturing of kraft paper used in packaging industries. The company has its plant located in Kaygaon Village, Aurangabad with installed capacity of 72000 MTPA. The product line of the company is from 18 BF to 24 BF and 100 GSM to 250 GSM. The company imports its raw material from different countries such as Europe, USA, Middle East, among others.

Analytical Approach

Acuité has considered standalone business and financial risk profile of KPPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  KPPL was incorporated in 1989 by Mr. Omprakash Rathi along with others. The present board of directors is represented by Mr. Omprakash Rathi, Mr. Akshay Rathi, and Mr. Hemant Kunte. The company is engaged in manufacturing of kraft paper using waste paper as its major raw material. The promoters have experience of over three decades in the aforementioned industry. Mr. Omprakash Rathi is ably assisted by an experienced second line of management. Mr. Akshay Rathi looks after the day to day operations including strategic initiatives of the company.

  Acuité believes that the company will benefit from its experienced management, which helps the company maintain long-standing relations with its customers and suppliers.

- **Efficient working capital management**

  KPPL has efficiently managed its working capital as reflected in Gross Current Assets (GCA) of 82 days in FY2019 as against 85 days in FY2018 and 96 days in FY2017. The company generally maintains inventory of 30 days. Collection period stood at 49 days in FY2019 as against 57 days in FY2018. As a result, the reliance on working capital limits is moderate at ~80-85 per cent. Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the company.

- **Moderate financial risk profile**

  The financial risk profile of the company is moderate marked by modest net worth, gearing and debt protection metrics. The net worth of the company stood at Rs.31.32 crore as on 31 March, 2019 as compared to Rs.27.28 crore in the previous year. The networth includes unsecured loans of Rs.5.00 crore from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing improved to 0.91 times as on 31 March, 2019 as compared to 1.19 times in the previous year. The total debt of Rs.28.53 crore as on 31 March, 2019 consists of working capital facilities of Rs.12.82 crore, long term debt of Rs.15.61 crore and unsecured loans of Rs.0.09 crores. The interest coverage ratio (ICR) of the company stood moderate at 3.52 times in FY2019 as compared to 2.83 times in FY2018. The net cash accruals against the total debt stood moderate at 0.31 times in FY2019 compared to 0.25 times in FY2018. KPPL is undergoing a capex of Rs.12.60 crore towards installation of power co-generation equipment, quality control system and upgradation of existing Effluent Treatment Plant (ETP) which will be funded partly by internal accruals and term loan from banks. The capex is expected to be completed by December, 2020.

Acuité believes that the financial risk profile of the company will remain moderate over the medium term on account of efficient working capital management. However, notwithstanding the benefits of the capex, timely completion and stabilisation will remain key rating sensitivities.

Weaknesses

- **Fluctuating revenues and profitability margins**

The revenue trend of the company is uneven during the period FY2017 to FY2019 under the study. The operating income stood at Rs. 129.29 crore in FY2019 as against Rs.140.14 crore in FY2018 and Rs.111.90 crore in FY2017. The marginal decline in revenues in FY2019 is on account of decrease in raw material prices thereby reducing the price of the finished product. However, the company managed to improve sales volume in FY2019 as against FY2018. Also, company expects improvement in revenues by catering to exports market mainly China and Middle East. KPPL booked revenue of ~Rs. 93.00 crores for the period April to December, 2019.

The company's operating margins improved to 11.36 per cent in FY2019 as against 9.78 per cent in FY2018 and 9.38 per cent in FY2017. Despite decline in revenue in FY2019 the company managed to improve the margins. This is majorly on account of the company's ability to pass the increased cost to the customers. The company reported Profit after Tax (PAT) margins of 3.12 per cent in FY2019 as against 2.62 per cent in FY2018 and 0.69 per cent in FY2017. Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

- **Susceptible to fluctuations in prices of raw material**

The key raw material for the company is waste paper procured domestically as well as imported. The prices of the waste paper are fluctuating and highly dependent on the supply of the paper. Further, competitiveness from several organised and unorganised players can adversely impact the operating and profitability profile of the company.

Rating Sensitivities

- Stretch in Gross Current Asset (GCA) to 110-120 days.
- Substantial improvement in scale of operation (~Rs.160.00-180.00 crores), while maintaining profitability margin of around 10.50-12.00 per cent over the medium term.

Material Covenants

None

Liquidity Position: Adequate

KPPL has adequate liquidity marked by net cash accruals as compared to its maturing debt obligations. The company generated cash accruals of Rs. 9.19 crore – Rs. 15.08 crore during the last three years through 2017-19, while the maturing debt obligations were in the range of Rs. 0.30-7.27 crore over the same period. The cash accruals are estimated to improve to Rs. 11.00 - 14.6 crores during 2020- 22, while its repayment obligations are expected to be nil. The company maintains cash and bank balances of Rs. 4.07 crore as on March 31, 2019. The current ratio stood moderate at 1.29 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improvement in net cash accruals.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on account of experienced management, moderate financial risk profile and efficient working capital. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	129.29	140.14
PAT	Rs. Cr.	4.04	3.68
PAT Margin	(%)	3.12	2.62
Total Debt/Tangible Net Worth	Times	0.91	1.19
PBDIT/Interest	Times	3.53	2.83

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

CARE, vide its press release dated March 25, 2019 had denoted the rating of Kaygaon Paper Mills Limited as 'CARE BB/CARE A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.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	14.00	ACUITE BB+ /Stable
Term Loan	Dec, 2019	Not Applicable	Dec, 2024	9.92	ACUITE BB+ /Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	9.91	ACUITE BB+ /Stable

Contacts

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About Acuité Ratings & Research:

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