

## Press Release

### Kaygaon Paper Mills Private Limited

June 15, 2021



#### Rating Reaffirmed and Assigned

<b>Total Bank Facilities Rated*</b>	Rs.40.08 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Stable (Reaffirmed and Assigned)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed and assigned the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.40.08 Cr. bank facilities of Kaygaon Paper Mills Private Limited (KPPL). The outlook is '**Stable**'.

#### Rationale for reaffirmation of ratings

The rating reaffirmation draws comfort from the experience of the management, improvement in operating income supported by expansion in export markets, its diversified supplier base, moderate financial risk profile and stable working capital management. However, the ratings continue to remain constrained due moderation in its profitability indicators, exposure to cyclical risks, foreign exchange fluctuation risks and risk of concentration in product profile.

#### About the Company

Aurangabad-based KPPL incorporated in 1989, is promoted by Mr. Omprakash Rathi, Mr. Akshay Rathi, and Mr. Hemant Kunte. The company is engaged in manufacturing of Kraft Paper with applications in packaging industry. 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.

#### Analytical Approach

Acuité has considered the standalone view of the 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 to maintain long-standing relations with its customers and suppliers.

- **Growth in operating income supported demand from export markets**

KPPL's operating income stood at Rs.150.44 Cr. in FY2021 (Provisional) as against Rs.125.52 Cr. in FY2020. The improvement in operating income is supported by increasing demand from export markets such as China, Hong Kong and United Arab Emirates, and increase in market prices due to supply constraints. Nonetheless, the overall volume sales remain stable on Y-O-Y basis.

- **Moderate Working capital management**

KPPL's working capital management remains moderate marked by elongation of Gross Current Assets

(GCA) to 101 days in FY2021 (Provisional) as against 85 days in FY2020 and 82 days in FY2019. Elongation in GCA days is attributed to build-up of Other Current Assets (OCA) as advances given to suppliers have increased to avoid disruptions in supply of goods as witnessed by KPPL in Q1FY2021 (Provisional).

The Inventory holding period stood stable at 32 days in FY2021 (Provisional) as against 33 days in FY2020 and 28 days in FY2019. Similarly, the debtors collection period also stood stable at 49 days in FY2021 (Provisional) as against 46 days in FY2020 and 49 days in FY2019. The creditors' payment period has also remained stable at 28 days in FY2021 as against 26 days in FY2020 and 30 days in FY2019.

The fund based working capital limits remained utilised at ~75 percent for the trailing 6-month period ended May, 2021. While the non-fund based limits remain utilised at ~60 percent as on May 31, 2021.

Acuite expects the working capital management to remain moderate over the medium term on account of stable working capital levels maintained by the company.

- **Diversified Supplier base**

The kraft paper is manufactured from waste paper, which remains in short supply in the domestic market forcing the paper mills to depend on imports as the collection rate is quite low and, in this case, the network that an entity has for collection of waste paper is critical. The reliance of KPPL on a diversified and distributed base of suppliers across the globe ensures that the company is able to source its raw materials avoiding any business disruptions.

- **Moderate Financial risk profile**

KPPL has a moderate financial risk profile marked by its moderate capital structure and debt protection metrics.

The tangible net worth of the company stood modest at Rs.38.12 Cr. as on March 31, 2021 (Provisional) as against Rs.34.77 Cr. as on March 31, 2020. The net worth includes unsecured loans of Rs.5.00 Cr. from promoters, which is subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The Gearing (Debt to Equity) stands consistent at 0.62 times as on March 31, 2021 (Provisional) and 0.62 times as on March 31, 2020 with debt profile consisting of both secured and unsecured long term debt obligations, and short term debt obligations. The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood moderate at 1.18 times as on March 31, 2021 (Provisional) as against 1.14 times as on March 31, 2020. The Debt-EBITDA stood comfortable at 1.66 times as on March 31, 2021 (Provisional) as against 1.57 times as on March 31, 2020.

The coverage indicators have improved on a Y-O-Y basis supported by growth in revenue and consistent borrowing cost, as reflected in the Interest Coverage Ratio (ICR) of 4.47 times in FY2021 (Provisional) as against 3.87 times in FY2020, and Debt-Service Coverage Ratio (DSCR) of 1.60 times in FY2021 (Provisional) as against 1.21 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) remained in the range at 0.21 times in FY2021 (Provisional) as against 0.29 times in FY2020.

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 is funded by internal accruals and debt. The capex is expected to be completed by December, 2020. With an aim to meet the quality standards of paper in the international markets and reduce its power cost.

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

## Weaknesses

- **Moderation in profitability indicators**

KPPL's operating margins remain susceptible to volatile raw material (waste paper) prices, which are linked directly to international prices and are prone to frequent artificial supply shortages of waste paper in the domestic market. Further, as KPPL pivots to the international market, the fluctuations in transportation and freight cost will also affect the profitability of KPPL. Kraft paper is used for tertiary packaging; thus, offtake depends on industrial production and other macroeconomic factors. The prices of the waste paper have increased in FY2021 as against FY2020 due to supply constraints.

The increasing prices of raw material and freight is visible in the Operating (EBITDA) margin of 9.45 percent in FY2021 (Provisional) as against 10.57 percent in FY2020 and 11.36 percent in FY2019, and the PAT margin stood at 2.23 percent in FY2021 (Provisional) as against 2.75 percent in FY2020 and 3.12 percent in FY2019. Meanwhile, the ROCE has fluctuated over the years to 13.34 percent in FY2021 (Provisional) as against 12.95 percent in FY2020 and 15.27 percent in FY2019.

Acuité believes that the company's ability to register significant growth in its revenues while improving its profitability would be key rating sensitivity.

- **Exposure to cyclical risk and foreign exchange fluctuation risk**

The paper industry is highly cyclical and depends on general economic conditions as well as the industry demand and supply. There is a bunching up of new capacity additions, which in turn results in higher supply when compared to the demand growth. Companies with strong market position and low leverage are generally able to withstand the impact of high cyclical. In addition, the presence in different product segments helps companies to maintain the revenue despite decline in demand for a particular product. The Indian paper industry also faces import threats which results in volatile profitability for the companies.

Further, reliance on imports exposes KKPL to foreign exchange fluctuation risk, which however is partially hedged by exports. Nonetheless, as imports remain more than exports, partial risks do remain.

- **Concentration risk in the product profile and highly fragmented and competitive industry**

KPPL's product profile consists of only Kraft paper which results in concentration risks at product level, a company with more segments typically benefits from greater diversification against fluctuation in pricing and end-market demand. Further, paper and paper products have very limited scope for product differentiation which limits the pricing strategy. This in turn results in intense price competition with low barriers to entry. Moreover, with presence of several mid and small scale players also contributes to the intense competition, the industry is highly fragmented.

The paper industry being capital intensive, the ability of the company to consistently achieve high capacity utilization levels is critical to recover the costs and generate healthy profitability.

#### **Liquidity position: Adequate**

KPPL has adequate liquidity position marked by comfortable Net Cash Accruals (NCA) of Rs.9.13 Cr. vis-à-vis its maturing debt obligations of Rs.1.81 Cr. as on March 31, 2021 (Provisional), giving liquidity buffer. The cash accruals are expected to remain in the range of Rs.10.00 – Rs.15.00 crores against repayment obligations of Rs.2.50-Rs.3.50 crores annually during the FY2022-24 period. The cash and bank balance stood at Rs.0.16 crore as on March 31, 2021 (Provisional). The current ratio stood at 1.37 times as on March 31, 2021 (Provisional) as against 1.09 times as on March 31, 2020.

Acuité believes that KPPL's liquidity is expected to improve and remain at adequate levels over the medium term.

#### **Rating Sensitivities**

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the firm.

#### **Material Covenants**

None

#### **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 working capital cycle. 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 risk profile and liquidity profile most likely as a result of higher than envisaged working capital requirement.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	150.44	125.52
PAT	Rs. Cr.	3.35	3.45
PAT Margin	(%)	2.23	2.75
Total Debt/Tangible Net Worth	Times	0.62	0.62
PBDIT/Interest	Times	4.47	3.84

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

None

### 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>

### 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
17-Feb-2020	Cash Credit	Long Term	14.00	ACUITE BB+ / Stable (Assigned)
	Term Loan	Long Term	9.92	ACUITE BB+ / Stable (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	1.75	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	9.91	ACUITE BB+ / Stable (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	9.00%	Not Applicable	18.50* (Revised from 14.00)	ACUITE BB+ / Stable (Reaffirmed)
Term Loan – I	December, 2018	9.00%	July, 2026	3.33 (Revised from 9.92)	ACUITE BB+ / Stable (Reaffirmed)
Term Loan – II	January, 2020	9.00%	August, 2029	9.40	ACUITE BB+ / Stable (Assigned)
Term Loan – III	January, 2021	9.00%	March, 2026	4.25	ACUITE BB+ / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.85 (Revised from 9.91)	ACUITE BB+ / Stable (Reaffirmed)

\*consists of sub-limit of Rs.7.00 crore of EPC/PCFC/PSC/PSCFC/FBD/FBN/FBP and sub-limit of Rs.4.50 crore of LC bank facilities.

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### About Acuité Ratings & Research:

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