

Press Release

Kaygaon Paper Mills Private Limited

July 26, 2022



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.75	-	ACUITE A4+ Reaffirmed & Withdrawn
Bank Loan Ratings	38.33	ACUITE BB+ Reaffirmed & Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	40.08	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the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 Cr. bank facilities of Kaygaon Paper Mills Private Limited (KPMPL). The rating is being withdrawn on account of the request received from the company and the NOC received from the banker as per Acuite's policy on withdrawal of ratings.

About the Company

Aurangabad-based KPMPL was incorporated in 1989 and is promoted by Mr. Omprakash Rathi, Mr. Akshay Rathi and Mr. Hemant Kunte. The company is engaged in manufacturing of 'manufacturing paper', known as 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KPMPL to arrive at this rating

Key Rating Drivers

Strengths

> Experienced management

KPMPL 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.

> **Moderate financial risk profile**

The financial risk profile of the company stood moderate marked by moderate net worth, high gearing and comfortable debt protection metrics. The tangible net worth stood at Rs.42.93 as on 31 March 2022(prov) as against Rs.39.50 as on 31 March 2021 and Rs.34.77 crore as on 31 March, 2020 . Total debt of the company stood at Rs.30.26 cr as on March 31, 2022(prov) and includes Rs.16.88 Cr of long term borrowings and Rs.13.38 Cr of short term borrowings. Gearing (debt-equity) stood at 0.70 times as on 31 March 2022(prov) as against 0.59 times as on 31 March 2021 and 0.62 times as on 31 March, 2020 . Debt protection metrics of the company is comfortable with Interest Coverage Ratio at 6.59 times for FY2022 as against 4.65 times for FY2021 and 3.84 times for FY2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.42 times for FY2022 (Prov.) as against 0.37 times for FY2021 and 0.42 times for FY2020 .

Acuite expects the financial risk profile to remain moderate over the medium term in absence of any major capex plan.

Weaknesses

> **Working capital intensive nature of operations**

The operations of the Company are working capital intensive working marked by Gross Current Asset (GCA) days of 98 days as on March 31, 2021 as against 85 days in as on March 31,2020, driven by inventory and debtor days. The inventory holding period stood at 40 days as on March 31, 2021 as against 33 days as on March 31, 2020.The debtor days stood at 49 days as on March 31, 2021 as against 46 days as on March 31, 2020. The creditors day stood at 21 days as on March 31, 2021 as against 26 days as on March 31, 2020.

The debtor and inventory days stood at 41days and 24 days respectively as on March 31, 2022 (prov.), while the credit days stood at 12 days as on same date.

Acuite believes efficient management of working capital operations will remain a key rating monitorable.

> **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 cyclicity. 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.

Rating Sensitivities

> Elongation of working capital cycle

> Significant improvement in scale of operations while maintaining profitability margins and capital structure.

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity profile is adequate marked by moderate net cash accruals against its maturing debt obligations. The Company generated cash accruals of Rs. 10.49 Cr in FY2021 as against maturing debt obligation of 2.84 Cr . The Gross current asset days stood at 98 days as on March 31, 2021. The firm maintains unencumbered cash and bank balances of Rs. 0.15 crore as on March 31, 2021. The current ratio of the company stood at 1.41 times as on March 31, 2021.

Outlook: Not Applicable

None.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	150.23	125.52
PAT	Rs. Cr.	4.73	3.45
PAT Margin	(%)	3.15	2.75
Total Debt/Tangible Net Worth	Times	0.59	0.62
PBDIT/Interest	Times	4.65	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>
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- Application Of 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**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jun 2021	Proposed Bank Facility	Long Term	2.85	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	9.40	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	4.25	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	18.50	ACUITE BB+ Stable (Reaffirmed)
	Term Loan	Long Term	3.33	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.75	ACUITE A4+ (Reaffirmed)
17 Feb 2020	Cash Credit	Long Term	14.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	9.92	ACUITE BB+ Stable (Assigned)
	Bank Guarantee	Short Term	1.75	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	9.91	ACUITE BB+ Stable (Assigned)
	Letter of Credit	Short Term	4.50	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
The Shamrao Vithal Cooperative Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE A4+ Reaffirmed & Withdrawn
The Shamrao Vithal Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB+ Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.85	ACUITE BB+ Reaffirmed & Withdrawn
The Shamrao Vithal Cooperative Bank Ltd	Not Applicable	Term Loan	01-01-2021	9.00	31-03-2026	4.25	ACUITE BB+ Reaffirmed & Withdrawn
The Shamrao Vithal Cooperative Bank Ltd	Not Applicable	Term Loan	01-12-2018	9	31-07-2026	3.33	ACUITE BB+ Reaffirmed & Withdrawn
The Shamrao Vithal Cooperative Bank Ltd	Not Applicable	Term Loan	01-01-2020	9	31-08-2029	9.40	ACUITE BB+ Reaffirmed & Withdrawn

Contacts

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About Acuité Ratings & Research

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