



Press Release
Kherani Paper Mills Private Limited
July 05, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	55.00	ACUITE A- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	55.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 55.00 crore bank facilities of Kherani Paper Mills Private Limited (KPMPL). The outlook remains '**Stable**'.

Rationale for Reaffirmation

The rating reaffirmation takes into account stable operating performance of the group marked by improving profitability, albeit slight decline in operating income. The operating margin improved to 10.93 percent in FY2024 (Prov.) from 8.23 percent in FY2023. The PAT margin stood at 3.71 percent in FY2024 (Prov.) as against 2.30 percent in FY2023. The group generated a revenue of Rs. 1073.09 crore in FY2024 (Prov.) as against Rs. 1335.53 crore in FY2023. Decline in revenue is due to decline in the sales realisation price and marginal decline in sales volume. The financial risk profile of the group, though average has remained in line with Acuite's expectation for FY2024.

Further, the rating is constrained by the susceptibility of operating margins to volatility in raw material prices.

About the Company

Mumbai based Kherani Paper Mills Private Limited (KPMPL) was originally incorporated in 1988 and subsequently takenover by the present management i.e. G.N. Agarwal Group in the year 1992. It is engaged in the manufacturing of duplex board. Its factory is 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 present directors of the company are Mr. Gajendra Nagin Agarwal, Ms. Meena Gajendra Agrawal and Ms. Tanisha Nikhar Agarwal.

About the Group

Gayatrishakti Paper and Boards Limited, Kherani Paper Mills Private Limited and Gayatrishakti Tissue Private Limited together are referred as the G. N. Agarwal group. KPMPL 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 48,000 metric tonnes per year (MTPA).

Gayatrishakti Paper and Boards Limited was founded in 1996 as a public limited company. 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. 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. The Mumbai based group is promoted by Mr. Gajendra Nagin Agarwal and Ms. Meena Gajendra Agrawal.

Unsupported Rating

Not Applicable

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 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

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.

Augmentation of profitability, albeit moderation in operating income

The group has generated revenue of Rs. 1073.09 crore in FY2024 (Prov.) as against Rs. 1335.53 crore in FY2023. The decline in revenue of the group is on account of decline in realisation prices and marginal decline in sales volume. However, the operating margin stood at 10.93 percent in FY2024 (Prov.) as against 8.23 percent in FY2023. The PAT margin stood at 3.71 percent in FY2024 (Prov.) as against 2.30 percent in FY2023.

The group, however, is currently undertaking 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 for the group. The project is expected to be completed by H1FY2025, and the additional revenues are likely to accrue from FY2025 onwards. The company plans to

export 50% of the produce from the new unit.

Acuite expects the new tissue manufacturing capacity to contribute significantly in improving the group's scale of operations and profitability.

Moderately Efficient Working Capital Operations

The working capital operations are moderately efficient with GCA of 118 days as on March 31, 2024 (Prov.) as against 95 days on March 31, 2023. The GCA days are driven by inventory days and debtor days. The inventory days stood at 49 days on March 31, 2024 (Prov.) as against 42 days on March 31, 2023. The debtor collection period stood at 53 days on March 31, 2024 (Prov.) as against 47 days on March 31, 2023. Average creditor days stood at 66 days on March 31, 2024 (Prov.) as against 65 days on March 31, 2023.

The average working capital utilisation stood at 88.24 percent for seven months ended March 2024.

Weaknesses

Average Financial Risk Profile

The group has a average financial risk profile, marked by moderate tangible network of Rs. 339.08 crore on March 31, 2024 (Prov.) as against Rs. 230.48 crore on March 31, 2023. The increase in network is on account of accretion of profits to reserves along with equity infusion in Gayatrishakti Tissue Private Limited (GTPL). The gearing level of the group stood at 1.48 times as on March 31, 2024 (Prov.) as against 1.76 times on March 31, 2023. Debt-EBITDA stood at 4.22 times on March 31, 2024 (Prov.) as against 3.55 times on March 31, 2023. TOL/TNW improved to 2.10 times on March 31, 2024 (Prov.) as against 3.06 times on March 31, 2023.

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. The gearing is expected to deteriorate moderately in the near term, due to the ongoing capex.

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 debt protection indicators remain average with Interest Coverage Ratio at 2.75 times on March 31, 2024 (Prov.) as against 2.70 times on March 31, 2023. The Debt Service Coverage Ratio (DSCR) stood at 1.11 times on March 31, 2024 (Prov.) as against 1.08 times on March 31, 2023.

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. 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.
- Significant deterioration in the financial risk profile.
- Stretch in the liquidity position of the group.

Liquidity Position

Adequate

The group has an adequate liquidity position with sufficient net cash accruals against

maturing repayment obligations. The group generated NCA worth Rs. 65.77 crore (Prov.) in FY2024 against repayment obligations of Rs. 54.94 crore for the same period. The group is expected to generate NCA in the range of Rs. 89.00 – 115.00 crore for FY2025-FY2026 against maturing obligations in the range of Rs. 59.00 – 85.00 crore for the same period. The average bank limit utilization of the group stands at 88.24 percent for seven months ended March 2024.

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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	1073.09	1335.53
PAT	Rs. Cr.	39.82	30.74
PAT Margin	(%)	3.71	2.30
Total Debt/Tangible Net Worth	Times	1.48	1.76
PBDIT/Interest	Times	2.75	2.70

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

Not Applicable

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, Acuite 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
02 Jun 2023	Cash Credit	Long Term	25.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	9.62	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	20.25	ACUITE A- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.13	ACUITE A- Stable (Reaffirmed)
28 Sep 2022	Cash Credit	Long Term	25.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	7.75	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	15.50	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Long Term Bank Facility	Long Term	6.75	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
19 Sep 2022	Cash Credit	Long Term	25.00	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Term Loan	Long Term	7.75	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Term Loan	Long Term	15.50	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
	Proposed Long Term Bank Facility	Long Term	6.75	ACUITE BBB+ Stable (Downgraded from ACUITE A- Stable)
02 Sep 2021	Cash Credit	Long Term	25.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	20.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Term Loan	Long Term	10.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.64	ACUITE A- Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	12 Sep 2022	Not avl. / Not appl.	31 Dec 2026	Simple	7.46	ACUITE A- Stable Reaffirmed
Aditya Birla Finance Limited	Not avl. / Not appl.	Term Loan	26 Dec 2019	Not avl. / Not appl.	31 Dec 2026	Simple	16.90	ACUITE A- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr. No.	Company Name
1	Gayatrishakti Paper and Boards Limited
2	Kherani Paper Mills Private Limited
3	Gayatrishakti Tissue Private Limited

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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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