

Press Release

Krishna Tissues Private Limited

April 28, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.414.22 Cr.
Long Term Rating	ACUITE A-/Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) and the short term rating of '**ACUITE A2+**' (**read as ACUITE A two plus**) on the Rs.414.22 Cr bank facilities of Krishna Tissues Private Limited (KTPL). The outlook is '**Stable**'.

The rating on KTPL is driven by the strong business risk profile of the company marked by its state-of-the-art technology, consistent growth in revenue and healthy cash accruals arising from efficient capacity utilization and steady flow of orders. Further, the rating draws comfort from the comfortable financial risk profile of the company and an adequate liquidity position. These strengths are partly offset by the working capital intensity in KTPL's operations and the extent of competition in the packaging paper segment which limits bargaining power of the manufacturers.

About the company

Incorporated in 2005, Krishna Tissues Private Limited (KTPL) was promoted by Mr. Murari Lal Bajaj, Mr. Jyoti Kumar Bajaj and Mr. Kanti Kumar Bajaj. KTPL is engaged in the manufacture of duplex board for primary packaging and kraft paper which is primarily used for manufacturing of kraft board which in turn is widely used in secondary packaging. The company has the largest integrated duplex board unit in West Bengal and it is one of largest manufacturers of kraft paper in India. It has two units with different product lines - one is coated duplex board unit with capacity of 115,500 MTPA in Ghoraghata, Bagnan, West Bengal and the other is kraft paper unit with a capacity of 185,000 MTPA in Burdwan, West Bengal. The company has also set up an 11.5 MW cogeneration plant in the Burdwan unit towards captive consumption. Both the units have state-of-the-art technology to produce quality products to cater to the diverse segments of the paper board market.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KTPL to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of the company and its management in packaging paper industry**

KTPL's board of directors comprise of five directors, namely Mr. Jyoti Kumar Bajaj, Mr. Kanti Kumar Bajaj, Mr. Kishore Sinha, Mr. Golam Safdar Ali and Mr. Sanjay Kumar Bhaduri, with Mr. Jyoti Kumar Bajaj as the managing director. The management has over three decades of experience in the paper manufacturing and trading business. They are also supported by other qualified personnel who are professionally managing the business. The company has established more than a decade of relationship with its suppliers and caters to geographically well diversified clientele such as Balaji Commercial Corporation (India), Elof Hansson Singapore Pte. Ltd., C and D Logistics (Guangzhou) Co. Ltd., only to name a few. Acuité believes the company will continue to benefit from its established track record of operations and management expertise in the packaging paper industry, resulting in steady growth in the scale of operations.

- Efficient capacity utilization and healthy order book position**

After the ban on waste paper in early 2018, the demand for ready kraft paper increased in China. Also, with the advent of e-commerce, and people ordering goods online, demand for quality duplex board and kraft paper for packaging has increased. Capacity utilization for kraft paper has increased from 64.29 per cent in FY'19 to 78.17 per cent in FY'20. Despite Covid-19 lockdown, demand for kraft paper has remained strong

both from domestic and export market in the current financial year. The capacity utilization of duplex board has also increased from 78.59 per cent in FY'19 to 87.44 per cent in FY'20. While the Bagnan duplex board unit was under maintenance for the month of May and partly for June, 2020 due to the impact of Amphan cyclone, the unit is currently working at full capacity.

The company sells its products through 8-10 major dealers / distributors across India. The company has a consistent order book of ~1-1.5 month's turnover with majority of their productions being order backed and thereby imparting revenue visibility in the medium term. The company has a healthy order book position to the tune of about Rs.95 Cr as on 31st December, 2020.

- **Consistent revenue growth and steady profit margins**

KTPL has achieved revenues of Rs.678.9 Cr in FY2020 as compared to revenues of Rs.637.3 Cr in FY2019 and Rs.553.3 Cr in FY2018, thereby registering a y-o-y growth of 6.53 per cent in FY'20 and 15.18 per cent in the previous year. The company has achieved revenues of Rs.547.5 Cr till February, 2021 (Provisional). The growth in the top line is on account of increasing demand for kraft paper and duplex board, as a result of increased e-commerce transactions apart from waste recycling restrictions in China. The profitability margins of the company are steady with operating margin of 14.96 per cent in FY20 as compared to 15.47 per cent in FY19 and 13.45 per cent in FY18. The PAT margins stood at 3.53 per cent as on FY2020 as against 2.19 per cent as on FY2019. The steady profitability margins have translated into healthy RoCE levels for the company of about 12.86 per cent in FY2020 as against 12.22 per cent in FY2019.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by healthy networth, modest gearing and moderate debt protection metrics. The tangible net worth of the company improved to Rs.278.1 Cr as on 31st March, 2020 from Rs.264.5 Cr as on 31st March, 2019. Gearing of the company stood at 1.12 times as on 31st March, 2020 as compared to 1.40 times as on 31st March, 2019. The debt of Rs.311.9 Cr comprises of working capital loan of Rs.149.5 Cr, term loan from bank of Rs.136.72 Cr and current obligations of term loan of Rs.25.7 Cr as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 1.73 times as on 31st March, 2020 as against 2.06 times as on 31st March, 2019. The moderate debt protection metrics of the company is marked by Interest Coverage Ratio at 2.21 times and Debt Service coverage ratio at 1.06 times as on 31st March, 2020. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.14 times as on 31st March, 2020. Acuité believes that in the near to medium term the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high albeit reduced Gross Current Assets (GCA) of 144 days in FY2020 as compared to 178 days in FY2019. The GCA days are high due to high inventory days at 78 days in FY2020 as compared to 120 days as on FY2019. Inventory days are high mainly because 40 per cent of their raw materials are imported since single use of paper gives better quality waste papers and as a result inventory is stocked up to mitigate risk of delay in transit, price risk and reduce costs with bulk orders. The debtor period is comfortable at 43 days in FY2020 as compared to 44 days in FY2019. Acuité believes that the operations would remain working capital intensive mainly due to the inherently high inventory holding period.

- **High competition in the paper industry**

Stiff competition from regional based small players limits KTPL's pricing flexibility. However, it is partially offset by operational efficiency due to economies of scale, and the present demand for kraft paper and duplex board in China due to ban on waste paper recycle and its established relationship with suppliers.

Rating Sensitivity

- Any slowdown in consumption and therefore impact on packaging paper industry
- Any fresh debt funded capital expenditure plan
- Elongation in working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The company's liquidity is adequate marked by net cash accruals of Rs.42.4 Cr in FY2020 as against long term debt repayment of Rs.37.5 Cr over the same period. The fund based limit remained utilized at 46 percent over the six months ended February, 2021. The current ratio stood below unity at 0.97 times as on 31st March, 2020 as compared to 0.91 times as on 31st March, 2019. This is due to high statutory liabilities of the company. The company availed a Covid loan of Rs.10 Cr with a six months loan moratorium, to fund the short term liquidity mismatch. The company's operations are working capital intensive as reflected by moderately high Gross Current Assets (GCA) of 144 days in FY2020 albeit it has reduced as compared to 178 days in FY2019. Acuité believes that going forward the company's liquidity position will improve due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on KTPL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and strong business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	678.90	637.25
PAT	Rs. Cr.	23.96	13.95
PAT Margin (%)	(%)	3.53	2.19
Total Debt/Tangible Net Worth	Times	1.12	1.40
PBDIT/Interest	Times	2.21	1.70

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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)

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	75.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.20	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.44	ACUITE A-/Stable (Assigned)

Term Loan	15.09.2020	8.00	15.09.2022	7.50	ACUITE A-/Stable (Assigned)
Term Loan	30.09.2020	7.85%	30.09.2022	2.50	ACUITE A-/Stable (Assigned)
Term Loan	10.05.2018	10.15%	10.11.2026	119.75	ACUITE A-/Stable (Assigned)
Term Loan	22.08.2019	11.05%	31.03.2023	25.56	ACUITE A-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.27	ACUITE A2+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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