

Press Release

Krishna Tissues Private Limited

April 14, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	345.95	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	68.27	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	414.22	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed 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 remains '**Stable**'.

The rating on KTPL takes into account the strong business risk profile of the company marked by its state-of-the-art technology, significant growth in revenues in the current year driven by efficient capacity utilization and steady flow of orders. Further, the rating draws comfort from the above average financial risk profile of the company characterized by strong network base, moderate gearing and debt protection metrics. These strengths are however, partly offset by the working capital intensity in KTPL's operations, recurring decline in the operating profitability margin due to increasing expenses and the extent of competition in the paper packaging segment.

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 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 six directors, namely Mr. Jyoti Kumar Bajaj, Mr. Kanti Kumar Bajaj, Mr. Kishore Sinha, Mr. Golam Safdar Ali, Mr. Sanjay Kumar Bhaduri and Mr. Prakash Kumar Kanodia, 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 recycled nature of products, demand for quality duplex board and kraft paper for packaging has increased. Capacity utilization for kraft paper has increased from 78.17 per cent in FY'20 to 97 per cent till Q3FY'22 (prov.). 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 is also healthy at 86 per cent till Q3FY'22 (prov.). The company sells its products through a network of 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 maintains healthy order book position to the tune of about Rs.90-100 Cr in hand.

Above average financial risk profile

The company's above average financial risk profile is marked by strong networth base, moderate gearing and debt protection metrics. The tangible net worth of the company improved to Rs.310.31 Cr as on 31st March, 2021 from Rs.278.05 Cr as on 31st March, 2020 due to accretion of reserves. Acuité has treated unsecured loans of Rs.144.22 Cr as quasi equity as the management has undertaken to maintain this amount in the business. Gearing of the company has steadily improved over the years and stood moderate at 1.02 times as on 31st March, 2021 as compared to 1.12 times as on 31st March, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.62 times as on 31st March, 2021 as against 1.73 times as on 31st March, 2020. The debt protection metrics of the company is moderate marked by Interest Coverage Ratio at 1.97 times however Debt Service coverage ratio is moderate at 1.12 times as on 31st March, 2021. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.11 times as on 31st March, 2021. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

Healthy revenue growth in the current year

KTPL has achieved gross revenues of Rs.983 Cr till Feb'22 (Prov.). The company had booked revenues of Rs.604.92 Cr in FY21 as compared to revenues of Rs.678.90 crores in FY2020. In FY21, the duplex paper unit was under maintenance during Q1FY21; hence production and sales were affected, apart from the impact of the pandemic. However, the growth in the top line in FY22 is on account of increasing demand for kraft paper and duplex board, as a result

of increased e-commerce, online shopping and plastic ban.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked by Gross Current Assets (GCA) of 211 days in FY2021 as compared to 144 days in FY2020. The GCA days are high majorly due to high inventory days at 113 days in FY2021 as compared to 73 days as on FY2020. Inventory period increased in FY21 as 40% of the company's raw materials are imported from abroad but due to Covid induced lockdowns, company faced high logistical costs and increased lead time which led to stocking of inventory. The debtor period is comfortable at 68 days in FY2021 as compared to 43 days in FY2020. Going forward, Acuite 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 Sensitivities

- Any slowdown in consumption and therefore impact on packaging paper industry
- Sustenance in the scale of operations while improving its profitability margins
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by high expected net cash accruals of around Rs.60 Cr in FY2022 as against a long term debt repayment of Rs.44.50 Cr over the same period. The fund based limit remained utilised at 64 percent over the seven months ended February, 2022. The current ratio stood moderate at 1.11 times as on 31st March, 2021 as compared to 0.97 times as on 31st March, 2020 and is further expected to improve in the current year. Acuite believes that going forward the company will improve its liquidity position due to steady accruals.

Outlook: Stable

Acuite 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 improving its profitability margins. 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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	604.92	678.90
PAT	Rs. Cr.	15.59	23.96
PAT Margin	(%)	2.58	3.53
Total Debt/Tangible Net Worth	Times	1.02	1.12
PBDIT/Interest	Times	1.97	2.21

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

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>
- 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
28 Apr 2021	Letter of Credit	Short Term	12.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	43.44	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	25.56	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	75.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	119.75	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	47.20	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	34.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	9.27	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	25.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.27	ACUITE A2+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A- Stable Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	47.20	ACUITE A- Stable Reaffirmed
UCO Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.44	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A2+ Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A2+ Reaffirmed
UCO Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	49.32	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	3.33	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.27	ACUITE A- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	84.73	ACUITE A- Stable Reaffirmed
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	16.66	ACUITE A- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Sonal Modi Analyst-Rating Operations Tel: 022-49294065 sonal.modi@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.