

Kuntum Papers Limited

September 1, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	651.67 (Reduced from 654.61)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	81.25	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	732.92 (₹ Seven Hundred Thirty-Two Crore and Ninety-Two Lakhs Only)		
Fixed Deposit	45.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Medium Term Instruments	45.00 (₹ Forty-Five Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities and fixed deposit instrument of Kuntum Papers Limited (KPL) factors in the strong operational performance of the company during FY22 (*refers to period from April 01 to March 31*) marked by healthy top-line and profitability indicators owing to the benefits of backward integration, which led to improved product quality and operations, thereby leading to cost optimization. Further, the ratings continue to derive strength from experienced management team & resourceful promoters, established supplier & distribution network, diversified product profile, and proximity of manufacturing plant to raw material sources. However, the ratings continue to remain constrained by moderate financial risk profile, intense competition in the writing and printing paper industry and vulnerability of profitability margins to volatile raw material prices.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability to sustainably scale up the operations with PBILDT margin improving significantly beyond 20%
- Efficient management of working capital operations thereby leading to improved liquidity on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Sustained decline in scale of operations with moderation in PBILDT margin below 14%
- Deterioration in liquidity position and capital structure with overall gearing beyond 1x

Detailed description of the key rating drivers

Key rating strengths

Improved Operational performance

The total operating income of the company reported y-o-y growth of ~103% & stood at Rs.832.30 crore in FY22 (PY: Rs.409.22 crore). Though, FY21 was an exceptional year for the writing & printing paper industry owing to closure of all educational institutions & offices with the global outbreak of Covid-19 pandemic, however, the company has performed even better than pre-covid levels owing to successful completion of its backward integration project (achieved COD in March, 2021), which led to overall enhancement in installed capacity from 120,000 MTPA to 148,500 MTPA. The same led to better product-mix with focus on specialty paper. Further, the PBILDT margin improved by 711 bps and stood at 14.68% during FY22 (PY: 8.58%), where FY21 was an aberration. As per past trend (pre-covid), the margins are usually remained range bound between 16 to 21%, however during FY22, due to rise in coal prices, the margins remained impacted during H2FY22.

Q1FY23 performance: The company reported total operating income of Rs.275.75 crore, as against Rs.252.66 crore reported during Q4FY22 and Rs.149 crore during Q1FY22. The same was even better than pre-covid levels, whereby the company reported highest-ever net sales realization of Rs.74,843 per MT (FY22: Rs.54,450 per MT, Q1FY23: Rs.51,287 per MT). The PBILDT margin improved significantly and stood at 22.54% in Q1FY23 as against 13.35% in Q4FY22 and 11.39% in Q1FY22 despite increase in production cost owing to cost benefits of backward integration project being completely realized. The company remained unimpacted by the rising pulp prices amidst the Russia-Ukraine war due to the benefits of its in-house pulp manufacturing unit.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Long track record of operations with an experienced management team & resourceful promoter

KPL is engaged in the manufacturing of paper for more than four decades which has helped in establishing long-standing business relationships with customers and getting regular orders from them. Mr. Jagesh Khaitan, Chairman, has an overall experience of around five decades and is associated with the company since its inception. The day-to-day affairs of the company are managed by Mr. Pavan Khaitan, son of Mr. Jagesh Khaitan. Mr. Khaitan is assisted by a team of professionals who are highly experienced in their respective domains. The promoters have extended continuous financial support over the years to fund the business requirements of the company. The promoters of the company have infused unsecured loans to meet the project funding requirements (Rs. 15.39 crores in FY21 and Rs. 3.73 crores in FY22).

Diversified product profile alongside established distribution network

KPL manufactures a wide range of WPP including maplitho, cream wove, copier paper and value-added specialty products like azure laid papers, parchment paper, cartridge paper, ledger paper, stiffner paper and coloured paper with a GSM range of 48 – 180 GSM. The paper manufactured by the company find its application in the printing of books, note books, calendars, diaries, newspaper supplements, pamphlets, computer stationary, etc. Therefore, the diverse product mix provides comfort to KPL's revenue stream. Further, KPL has pan-India network of more than 90 dealers majority in Delhi, Haryana, UP, MP, Punjab, West Bengal & Maharashtra. Over the years, KPL has established a strong customer-base and gets repeat orders from most of its clients.

Location advantage leading to easy availability of raw material

KPL utilizes agricultural residues like wheat straw, kana grass and bagasse whereas wood comprising of wood chips, wood logs and bamboo as the main raw materials. The plant is located in the agriculture belt of Punjab, because of which the availability of such raw materials is in abundance. Since KPL has an established business relation with the dealers engaged in the selling of wheat straw (long standing of ~3 decades in the industry), no major problem is experienced by the company in the procurement of the same. In the past, the company has also widened the supply chain partners to ensure regular availability of raw materials, spares and other inputs for an uninterrupted production.

Key rating weaknesses

Moderate Financial risk profile

The capital structure of the company stood moderate marked by an overall gearing of 1.64x as on March 31, 2022 (PY: 1.52x) owing to addition in term debt as under the one-time restructuring framework, the interest liability due on new term loans from April 2021 to August 2021 and on existing term loans from September 2020 to August 2021 was converted into funded interest term loan of Rs.34.86 crore. Further, the company availed disbursement of existing loans and also promoters infused unsecured loans to the tune of Rs.3.73 crore in FY22. However, with improved profitability, the debt coverage indicators improved. The interest coverage and total debt to GCA stood at 1.74x and 14.04x respectively (PY: 1.24x and 219.73x). Also, as part of one-time restructuring framework, certain benchmark ratios were stipulated in the sanction letter and the company is in compliance to all these ratios.

Highly competitive industry along with susceptibility of margins to volatile raw material prices

The paper industry is highly fragmented in nature with stiff competition from a large number of organized as-well-as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. Also, the industry is impacted by economic cycles. Further, KPL majorly uses agro based raw material which is purchased from the domestic markets. With respect to the agro-based raw materials, there are limitations in their use due to seasonal availability leading to high volatility in their prices. Therefore, the operating profitability of the company remains highly susceptible to any volatility in raw material prices, however the company has insulated itself against the same by undertaking backward integration and enhancing the capacities of pulp, paper and co-generation power plant and also setting up a chemical recovery plant.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals of Rs.117.20 crore vis-à-vis repayment obligations of Rs.33.32 crore and modest cash balance of Rs.4.42 crore as on March 31, 2022. Further, the company has liquidity cushion with sufficient drawing power available as against the sanctioned limits. The limit utilization stood at 39.1% for the trailing twelve months ending July, 2022. Further, the current ratio stood at 1.18x as on March 31, 2022 (PY: 0.90x).

The average collection period of the company stood at a comfortable level of ~20 days, as on March 31, 2022, as payments from the distributors are realized within one month (PY: 21 days). KPL maintains an inventory of ~6-10 weeks which comprises majorly of agro-based and chemical raw materials to ensure smooth flow of operations. The agricultural raw material consumed by KPL is generally procured from the local dealers, the payments to whom are generally made upfront (70% upfront and remaining after lab testing), and chemicals are also majorly procured locally while some portion of chemicals and wood pulp is

imported (LC backed), leading to overall credit period of ~1 month to the company. All this has led to a comfortable operating cycle of 35 days as on March 31, 2022 (PY: 56 days).

Analytical approach: Standalone approach

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Paper Industry](#)

[Policy on Withdrawal of Ratings](#)

About the company

Kuantum Papers Limited (KPL) was incorporated in 1997 under the name of 'ABC Paper Limited'. The paper operations which started in 1980 under another group Company 'Amrit Banaspati Co. Ltd.' were merged into ABC Paper Limited in 2007. Thereafter the name of the company was changed to KPL in 2012. The company is promoted by its Chairman, Mr. Jagesh Khaitan and Mr. Pavan Khaitan, Managing Director. The company is engaged in the manufacturing of Writing and Printing Paper (WPP) at its manufacturing facility located in Hoshiarpur (Punjab) with an installed capacity of 1,48,500 metric tonnes per annum (MTPA) as on March 31, 2022. KPL majorly utilizes agricultural residue based raw materials including Kana grass, wheat straw and bagasse. The plant is located in the agriculture belt of Punjab, because of which the availability of such raw material is in abundance. KPL sells its products under various brands like 'K-Gold, Kappa G, Keon, Krest and Kroma'.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	403.88	830.40	275.75
PBILDT	29.77	120.29	62.10
PAT	-12.73	13.42	*(38.85)
Overall gearing (times)	1.52	1.64	1.74
Interest coverage (times)	1.05	1.72	3.44

A: Audited; UA: Unaudited, *The same was owing to exceptional loss of Rs.63.42 crore incurred owing to change in the treatment of tax expense.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	53.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	70.00	CARE A2
Fund-based - LT-Term Loan		-	-	March-2027	596.67	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	11.25	CARE A2
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BBB+; Stable
Fixed Deposit		-	-	-	45.00	CARE BBB+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	53.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Dec-21)	1)CARE BBB (CWN) (14-Oct-20)	1)CARE A-; Negative (08-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	70.00	CARE A2	-	1)CARE A3+ (09-Dec-21)	1)CARE A3+ (CWN) (14-Oct-20)	1)CARE A2+ (08-Jan-20)
3	Fixed Deposit	LT	45.00	CARE BBB+; Stable	1)CARE BBB; Stable (22-Jun-22)	1)CARE BBB (FD); Stable (09-Dec-21)	1)CARE BBB (FD) (CWN) (14-Oct-20)	1)CARE A- (FD); Negative (08-Jan-20)
4	Fund-based - LT-Term Loan	LT	596.67	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Dec-21)	1)CARE BBB (CWN) (14-Oct-20)	1)CARE A-; Negative (08-Jan-20)
5	Non-fund-based - ST-Credit Exposure Limit	ST	11.25	CARE A2	-	1)CARE A3+ (09-Dec-21)	1)CARE A3+ (CWN) (14-Oct-20)	1)CARE A2+ (08-Jan-20)
6	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (09-Dec-21)	1)CARE A3+ (CWN) (14-Oct-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Name of the Instrument	Detailed Explanation	
A. Financial covenants		
I. Term Loan	DSCR	1.42
	Interest Coverage Ratio	1.68
	Debt/EBITDA	9.92
	FACR	1.96

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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