# Yash Pakka Limited

February 03, 2021

**Ratings**

| **Facilities/Instruments** | **Amount (Rs. crore)** | **Ratings** | **Rating Action** |
|---|---|---|---|
| Long Term Bank Facilities | 185.88 | CARE BBB; Stable; ISSUER NOT COOPERATING* (Triple B; Outlook: Stable ISSUER NOT COOPERATING*) | Rating moved to ISSUER NOT COOPERATING category |
| Short Term Bank Facilities | 19.35 | CARE A3; ISSUER NOT COOPERATING* (A Three ISSUER NOT COOPERATING*) | Rating moved to ISSUER NOT COOPERATING category |
| **Total Bank Facilities** | **205.23 (Rs. Two Hundred Five Crore and Twenty-Three Lakhs Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from Yash Pakka Limited (YPL) to monitor the ratings vide e-mail communications/ letters dated January 05, January 08 and January 11, January 15, January 20, January 25, 2021, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on YPL's bank facilities will now be denoted as **CARE BBB; Stable/CARE A3; ISSUER NOT COOPERATING*.**

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

The ratings derives strength from company's experienced promoters and its long track record of operations, improved financial risk profile, established customer relationships with robust selling and distribution network, cost effective production set-up with integrated operations along with the locational advantages. The ratings are, however, constrained by the project execution risk associated with capacity enhancements in the tableware segment along with certain other infrastructure improvements pertaining to environmental compliances. Further, the ratings are constrained on account of volatility in the raw material prices and the cyclical nature of the industry.

**Detailed description of the key rating drivers**

*At the time of last rating on January 22, 2020 the following were the rating strengths and weaknesses (updated for the information available from stock exchange):*

**Key Rating Strengths**

***Experienced Promoter and Professional Management team:*** Yash Pakka Limited (YPL) (From September 11, 2019, the name of the company has been changed to Yash Pakka Limited from Yash Papers Limited) was incorporated by late Mr K. K. Jhunjhunwala in 1983. Mr. Ved Krishna, son of late Mr. K. K. Jhunjhunwala, is the executive chairman of the company. He has been associated with the company for the last 15 years and therefore has a long experience in the paper industry. Mr. Ved Krishna has a team of professionals such as Mr. Jagdeep Hira (Managing Director & CEO) who is currently looking after day to day operations of the company.

***Long track record of operations and established relationship with customers:*** YPL has a long track record of operations and has been engaged in the paper industry for over three decades. As a result, YPL has established good relationship with various customers leading to repeated orders. The company caters to various multinational companies in industries like tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals etc. It sells its products in the domestic market through an established distributor network across India. Export of paper is carried out through merchant exports and agents appointed in various countries, to look after specific regions.

***Cost effective production set-up with integrated operations-* Captive power generation capabilities and soda recovery plant:** YPL has cost-effective production set-up as characterized by captive power plant of 8.5 MW and a 145 TPD soda recovery plant. The paper industry is capital and energy intensive in nature. Power cost constituted 16.01% of total operating income in FY20 (refers to the period from April 01 to March 31) (PY: 17.56%). To source its power requirements, the company has a captive power plant of 8.5-MW capacity (rice-husk based) which takes care of 100% power requirement of the company.

***Improved financial risk profile:*** The total operating income of the company has marginally increased to Rs.260.01 crore during FY20 from Rs.254.46 crore during FY19 supported by growth in the domestic sales in the tableware/moulded product segment. The PBIDLT margin of the company improved to 23.23% in FY20 (PY: 19.47%) on account of decrease in raw material cost and other overheads such as power and fuel, water consumption, etc. The PAT margin improved from 8.14% in FY19 to 10.62% in FY20 on account of lower interest cost. The overall gearing stood at 0.84 as on March 31, 2020. The improvement was on account of lower debt and accretion of profits in net worth. Further, the interest coverage ratio and total debt to PBILDT also improved to 4.83x and 1.6x as on March 31, 2020 from earlier 2.94x and 2.39 x as on March, 2020 respectively. It reported a total operating come of Rs. 75 crore during H1FY21 (refers to the period from April 01 to September 30) (PY: Rs. 134 crore) due to muted demand during Q1FY21. The PBILDT and PAT margins of the company have also slightly moderated to 21.89% and 5.79% in H1FY20 as against 23.14% and 10.40% in H1FY19 respectively.

***Locational Advantages in the form of easy availability of raw materials:*** The main raw material used by the company in its manufacturing process is agro-based raw materials such as bagasse. The plant is located in Uttar Pradesh, which is the sugarcane hub of India, thus ensuring adequate availability of bagasse. The company has been dealing with its top 10 suppliers for over 15 years. The long association with these suppliers provides comfort on the regular supply of raw materials to the company.

**Key Rating Weaknesses**

***Project Execution and off-take risk***: The company is planning to undertake a project at their existing plant at Faizabad, Uttar Pradesh for the capacity enhancement in tableware/ moulded products division. The same s being undertaken for installing the small-scale machinery such that the turnaround-around time (TAT) is higher and the production facilities will also enhance, modifications in the paper plant which gives more quality products in addition to the environmental compliance and also modernization of the power facility for efficiency improvements in the power plant. The total project cost of this capex is Rs.80 crores (to be undertaken in two tranches in FY20 and FY21), which will be funded using a term loan of Rs.56.61 crores and the remaining Rs.23.39 crores using internal accruals. Given the size of the project compared to the net worth, successful completion of the expansion/modernization projects within envisaged time and cost would remain crucial for the company and remains to be seen. Furthermore, risk associated with project-offtake also remains there given the fact that the existing tableware capacity is still under ramp-up phase. The above expansion has been envisaged in order to meet the market requirements and also to ramp-up the existing facilities.

***Price-Fluctuation Risk:*** The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. YPL uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. Therefore, going forward, the ability of the company to manage its profitability amid volatile raw material prices would be the key rating sensitivity.

***Fragmented and competitive industry:*** The Kraft paper industry is competitive in nature with stiff competition from large number of organized as well as unorganized players (small units account for ~60% of the industry size). Given the fact that the entry barriers to this industry are not very high, the players in this industry do not have pricing power and are exposed to competition.

<u>Liquidity: Adequate</u>

The operating cycle of the company improved and stood at 124 days as on March 31, 2020 (PY: 127 days) due to lower inventory holding period. The current ratio stood moderate at 1.06x as on March 31, 2020 (PY: 1.02x). The company has not availed any moratorium months under RBI’s Covid-19 relief package. The cash and bank balance of the company stood at Rs. 4.07 crore as on March 31, 2020 and Rs. 3.50 crore as on September 30, 2020.

**Analytical approach:** Standalone

**Applicable Criteria**
Policy in respect of Non-cooperation by issuer
CARE's criteria on rating outlook and credit watch
CARE's policy on default recognition
Liquidity Analysis of Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's rating methodology on financial ratios – Non-financial sector
CARE's Rating Methodology- Paper Industry
CARE's Rating Methodology- Short Term Instruments

**About the Company**
Yash Pakka Limited (the name of the company was changed from Yash Papers Limited w.e.f. September 11, 2019) was incorporated by late Mr K. K. Jhunjhunwala in 1983 with an initial installed capacity of 1940 MT per annum. Mr. Ved Krishna, son of late Mr. K. K. Jhunjhunwala, is the executive chairman of the company. The company is engaged in manufacturing of machine glazed agro based 30 ~ 100 GSM paper of unbleached Kraft, bleached Kraft and colored Kraft varieties. The company has also entered into the manufacture of tableware products since 2018. The total installed capacity of the company's paper and pulp plant is 40,260 TPA and the installed capacity of the tableware division is 11.50 TPD as on March 31, 2019

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 254.46 | 260.02 |
| PBILDT | 49.54 | 60.88 |
| PAT | 20.71 | 27.62 |
| Overall gearing (times) | 1.27 | 0.84 |
| Interest coverage (times) | 2.94 | 4.83 |

*A: Audited*
**Status of non-cooperation with previous CRA:** IND BB/IND A4+ (INC) as per PR dated Nov 26, 2018
**Any other information:** NA
**Rating History for last three years:** Please refer Annexure-2
**Covenants of rated instrument / facility:** *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 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | March 2029^ | 114.74 | CARE BBB; Stable; ISSUER NOT COOPERATING* |
| Fund-based - LT-Cash Credit | - | - | - | 64.73 | CARE BBB; Stable; ISSUER NOT COOPERATING* |
| Non-fund-based - ST-BG/LC | - | - | - | 19.35 | CARE A3; ISSUER NOT COOPERATING* |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 6.41 | CARE BBB; Stable; ISSUER NOT COOPERATING* |

**Issuer did not cooperate; Based on best available information; ^Inclusive of proposed debt*

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 114.74 | CARE BBB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BBB; Stable (22-Jan-20) | 1)CARE BBB; Stable (04-Oct-18) | 1)CARE BBB-; Stable (04-Dec-17) 2)CARE BBB-; Stable (17-Nov-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 64.73 | CARE BBB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BBB; Stable (22-Jan-20) | 1)CARE BBB; Stable (04-Oct-18) | 1)CARE BBB-; Stable (04-Dec-17) 2)CARE BBB-; Stable (17-Nov-17) |
| 3. | Non-fund-based - ST-BG/LC | ST | 19.35 | CARE A3; ISSUER NOT COOPERATING* | - | 1)CARE A3 (22-Jan-20) | 1)CARE A3 (04-Oct-18) | 1)CARE A3 (04-Dec-17) 2)CARE A3 (17-Nov-17) |
| 4. | Non-fund-based - LT-Bank Guarantees | LT | 6.41 | CARE BBB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BBB; Stable (22-Jan-20) | 1)CARE BBB; Stable (04-Oct-18) | 1)CARE BBB-; Stable (04-Dec-17) |

**Issuer did not cooperate; Based on best available information*

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Fund-based - LT-Term Loan | Simple |
| 3. | Non-fund-based - LT-Bank Guarantees | Simple |
| 4. | Non-fund-based - ST-BG/LC | Simple |

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

## Contact us

**Media Contact**
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

**Analyst Contact**
Sachin Mathur
Contact no. - +91-11-45333206
Email ID- sachin.mathur@careratings.com

**Business Development Contact**
Ms. Swati Agrawal
Contact no. - +91-11-4533 3200
Email ID- swati.agrawal@careratings.com

**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**