

## Astron Paper & Board Mill Limited

March 03, 2023

Facilities/Instruments	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	1.88	CARE BB+; Stable	Assigned
Long Term / Short Term Bank Facilities	124.00	CARE BB+; Stable / CARE A4+	Assigned
Short Term Bank Facilities	3.00	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Astron Paper & Board Mill Limited (APBL) remain constrained on account of continuously waning profit margins, moderate debt coverage indicators and stretched liquidity during FY22 (Audited, refers to period April 01 to March 31) and 9MFY23 (Unaudited, refers to period from April 01 to December 31). The above ratings further remain constrained due to APBL's presence in highly fragmented and cyclical paper industry with stringent pollution control norms as well as susceptibility of profitability margins to volatility in prices of wastepaper and foreign exchange rates.

The ratings however derive comfort from growing scale of operations, comfortable capital structure and vast experience of promoters in paper industry. The above ratings favourably factor successful project completion for setting up captive solar plant during Q3FY23.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Sustaining scale of operations marked by Total operating income (TOI) with improvement in profitability marked by PBILDT margin of 4% or above on a sustained basis.
- Improvement in debt coverage indicators marked by an interest coverage ratio above 3x.
- Sustaining capital structure with an overall gearing ratio of below unity times.

#### Negative factors

- Decline in the scale of operations below Rs.250 crore and/or continuing reporting cash losses.
- Any debt funded capex leading to deterioration in capital structure marked by an overall gearing ratio above 1.5x.
- Elongation in operating cycle by 20 days or more

**Analytical approach:** Consolidated along with corporate guarantee extended by APBL.

CARE Ratings has adopted the consolidated approach due to operational and financial linkages between APBL and its wholly owned subsidiary- Balam Papers Private Limited (BPPL). APBL has also extended corporate guarantee for the bank facilities of BPPL. Details of subsidiaries consolidated are shown in **Annexure-6**.

### Outlook: Stable

Stable outlook reflects that the rated entity is likely to sustain growth in the scale of operations over the medium term. The entity is also expected to improve its profitability and sustain its comfortable capital structure in absence of any large debt funded capex or acquisition plans over the medium term.

### Key weaknesses

#### Continuous waning of profit margins

The profitability position of APBL is continuously declining marked by PBILDT margin at 3.96% in FY22 as against 7.54% in FY21 (10.07% during FY20) on account of high volatility in the prices of primary raw material i.e. wastepaper. Consequent to dip in PBILDT margins, PAT margin remained thin at 1.63% in FY22 as against 2.34% in FY21. Further, APBL had reported operational loss of Rs.18.71 crore and net loss of Rs.22.56 crore in 9MFY23 as APBL was unable to pass on increased wastepaper prices to its customers along with decline in exports on the back of Russia-Ukraine war. The said losses are largely funded through recovery from trade receivables in 9MFY23 which were stuck during COVID-19 pandemic.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Moderate debt coverage indicators**

The debt coverage indicators remained moderate as marked by total debt to GCA (TDGCA) at 4.54 years as on March 31, 2022 as against 3.01 years as on March 31, 2021 where marginal deterioration is due to increase in total debt level led by higher working capital utilization as on balance sheet date. Interest coverage ratio also remained moderate at 2.07 times during FY22 (2.92 times during FY21). The debt coverage indicators of APBL deteriorated in 9MFY23 as marked by weak interest coverage ratio due to reported operational losses.

**Presence in highly fragmented and cyclical industry**

Indian paper board industry is highly fragmented with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers in terms of flexibility to pass on the raw material price fluctuation to its customers. For decades China was the world's largest importer of wastepaper but in July 2017 it announced that it will ban imported waste papers to protect China from becoming world's dumping ground. It resulted in drastic effect on wastepaper prices and average prices of mixed wastepaper slumped on account of an oversupply of wastepaper in the global market and they have been declining till the outbreak of COVID 19 pandemic. Post which same started increasing and are on high level with increase in logistic cost due to non-availability of containers.

**Stringent pollution control norms**

Paper industry is one of the most polluting industries, as identified and categorised by Central Pollution control Board (CPCB) as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting number of issues in relation to wastewater treatment, discharge and sludge disposal. However, APBL is following Zero Liquid Discharge (ZLD) mechanism having adequate Effluent treatment Plant (ETP) in place with 7200 Kilo litres per day (KLPD) capacity of treated water which is recycled and reused in the production process.

**Susceptibility of profitability margins to volatility in prices of wastepaper and foreign exchange rate**

Raw Material costs is the key cost contributor for APBL followed by power and fuel and employee costs. Wastepaper constitutes around 70% of the total cost of goods sold for APBL. Prices of wastepaper are affected by two prime factors: prices in international market and the monsoon season. In January 2018, China banned importing 24 types of waste materials; wastepaper was one of them. Post imposition of ban on importing wastepaper by China, the international prices of wastepaper declined on the back of excess supply in the other markets. However, with COVID 19 pandemic emerging in the later part of FY20 and subsequent lockdown imposed by various nations of the world, there was mismatch between the demand and supply of wastepaper in the international market which led to an increase in the price of wastepaper. Further, APBL procures ~80-85% of its total wastepaper through imports vis-à-vis nominal exports proportion which lead to exposure to volatile foreign exchange rates to the extent of unhedged foreign currency exposure.

**Key strengths****Growing scale of operations**

The scale of operations of APBL are growing since past three years marked by Compounded Annual Growth Rate (CAGR) of 18.54% ended FY22. During FY22, the scale of operations as marked by TOI grew by ~16% and remained at Rs.504.71 crore as against Rs.436.35 crore in FY21 on the back of increase in the sales prices. Further, during 9MFY23, TOI remained at Rs. 303.65 crore on a consolidated level.

**Comfortable capital structure**

The capital structure of APBL remained comfortable as marked by an overall gearing of 0.42x as on March 31, 2022 as against 0.33x as on March 31, 2021 due to robust net worth base. Considering corporate guarantee extended to BPPL, adjusted overall gearing remained comfortable at 0.50x as on March 31, 2022 as against 0.41x as on March 31, 2021. Capital structure is expected to remain comfortable henceforth in absence of any debt funded capex.

**Experienced promoters**

APBL is promoted by Mr. Kirit Patel, Mr. Ramakant Patel and Mr. Karsan Patel. Mr. Kirit Patel is Chairman and Managing Director since incorporation having experience in paper industry over two decades through his association with APBL and other firms. He looks after corporate finance and strategic planning for the long-term growth of the company and has established a wide distribution network related to company's product. Mr. Ramakant Patel, Executive Director having over two decades of experience in packaging and paper industry and currently looks after the marketing strategies of APBL. Mr. Karshanbhai Patel is Executive Director of APBL holds experience of around 8 years in paper industry.

### Successful project completion in Q3FY23

Aiming to reduce the power cost and increase the efficiency of captive power plant, APBL has undertaken capex amounting to Rs.4 crore for upgradation and modification of boiler and turbine; which was funded from internal accruals. The capex was commenced in July 2022 and completed in December 2022 while the commercial operations commenced from January 2023. The said capex will lead to saving in the power cost.

### Liquidity: Stretched

The liquidity position of APBL remained stretched marked by negative cash flow from operations of Rs.12.07 crore in FY22 as against positive cash flow from operations of Rs.36.50 crore in FY21; mainly on account of increase in outstanding trade receivables as on balance sheet date along with lower profitability in FY22. The average utilization of working capital limits remained high at 90% during past twelve months ended January 31, 2023. Gross cash accruals remained at Rs.16.84 crore in FY22 and cash loss of Rs.17.45 crore in 9MFY23 as against debt repayment obligation of Rs.5.73 crore in FY23 and Rs.3.98 crore in FY24. Current and quick ratio remained moderate at 1.28x and 0.94x respectively as on March 31, 2022 (1.24x and 0.86x). Cash and bank balance remained Rs.1.11 crore as on March 31, 2022. Trade receivables more than six months remained at Rs.9.48 crore as on March 31, 2022 which are expected to release in short term.

### Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[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 and industry

#### Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

Ahmedabad (Gujarat) based Astron Paper & Board Mill Limited (APBL) was initially incorporated as a private limited company in December, 2010. Further, in 2017 it changed its constitution from private limited to listed company through shifting on the main board of National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). APBL is an ISO 9001:2015 and ISO 14001:2015 certified company operating from its two manufacturing plants located at Halvad, Gujarat and Bhuj, Gujarat with a total installed capacity of 1.80 lacs Metric Tons Per Annum (MTPA) of kraft paper. The company manufactures different varieties of kraft paper ranging from 80 to 350 Grams Per Square Meter (GSM) and Bursting Factor (BF) from 16 to 40. During July, 2018 APBL has acquired Balaram Papers Private Limited (BPPL) as a wholly owned subsidiary. The manufacturing facilities of BPPL is located at Mehsana, Gujarat with an installed capacity of 42000 MTPA.

Brief Financials- Consolidated (₹ crore)*	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	436.35	504.71	303.65
PBILDT	32.90	19.97	-18.71
PAT	10.21	8.25	-22.52
Overall gearing (times)	0.33	0.42	0.44
Adjusted Overall gearing (times)	0.41	0.50	0.53
Interest coverage (times)	2.92	2.07	NM

A: Audited, UA: Unaudited, NM: Not Meaningful, \*Note: 'The above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

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

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	January 2024	1.88	CARE BB+; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	78.00	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	46.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	3.00	CARE A4+

#### 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/ ST-Cash Credit	LT/ST*	78.00	CARE BB+; Stable / CARE A4+				
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	46.00	CARE BB+; Stable / CARE A4+				
3	Non-fund-based - ST-Bank Guarantee	ST	3.00	CARE A4+				
4	Fund-based - LT-Term Loan	LT	1.88	CARE BB+; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities-** Not Applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - LT/ ST-Letter of credit	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries and associates**

Sr. No.	Name of the Company	Shareholding (%)
	<b>Subsidiaries</b>	
1.	Balaram Papers Private Limited	100%

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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