Kuantum Papers Limited

December 05, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	500.28 (Reduced from 651.67)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	78.65 (Reduced from 81.25)	CARE A2+ (A Two Plus)	Revised from CARE A2 (A Two)
Total Bank Facilities	**578.93 (₹ Five Hundred Seventy-Eight Crore and Ninety-Three Lakhs Only)**		
Fixed Deposit	45.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; 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 ratings assigned to the bank facilities and fixed deposit instrument of Kuantum Papers Limited (KPL) factors in strong operational performance of the company which continued in H1FY23 *(refers to the period April 2022 to September 2022)* backed by robust demand for writing and printing paper (WPP) leading to highest ever realizations in the WPP segment. The improved realizations along with healthy operational cash flows have been utilized to prepay the entire Funded Interest Term Loan (FITL) to the tune of Rs.35.25 Cr during Q2FY23 *(refers to the period July 2022 to September 2022)*, which was scheduled to be repaid from September 2022 onwards till FY2029-30. 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. On the other hand, the ratings continue to remain constrained due to 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:

- Sustained improvement in scale of operations along with PBILDT margin above 20%
- Reduction in debt leading to improved debt coverage metrics along with healthy liquidity position

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

- Decline in scale of operations with moderation in PBILDT margin below 15%
- Deterioration in liquidity position and capital structure with overall gearing beyond 0.90x as on March 31, 2023 and 0.50x as on March 31, 2024

Detailed description of the key rating drivers

Key rating strengths

Improved operational performance: The total operating income of the company during H1FY23 reported y-o-y growth of 76.48% and stood at Rs. 615.23 Cr as against Rs. 348.62 Cr during H1FY22. The performance is driven by robust demand in the writing and printing paper (W&PP) owing to gradual reopening of offices, educational institutions, courts, improved realizations on the products, healthy growth in quantity sold and operational efficiencies as a result of backward integration project (achieved COD in March, 2021). The company has surpassed its pre-covid levels of production as well as sales volume during FY22 which stood at 1,51,740 MTPA and 1,51,674 MTPA, respectively (PY Production: 82,531 MTPA and Sales Volume: 84,183 MTPA). Further revenue is expected to grow approximately 40 to 45 per cent during FY23. Further, the PBILDT margin improved to 26.30 per cent during H1FY23 (FY22: 14.49 per cent) and is expected to remain healthy during the year owing to improved product realizations and better availability of raw materials during H2FY23 with the company's raw material being

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

agro-based and improved efficiency due to de-bottlenecking of operations and upgradation of plant during FY21. However, the company reported low PAT margin of only 2.24% in H1FY23 (PY: 1.62%) due to non-cash exceptional expense to the tune of Rs.63.42 crore reported by KPL in H1FY23 pertaining to MAT credit entitlement being written off to adopt new tax regime. Consequently, there will be no tax outgo for the next 2 fiscals. This being a non-cash item/adjustment, the actual GCA stood at Rs.124.82 crore in H1FY23.

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 had 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 improved though remained moderate marked by an overall gearing of 1.41x as on September 30, 2022 as against 1.64x as on March 31, 2022 owing to healthy accretion to reserves and improved cash flow position resulting in pre-payment of its FITL of Rs.35.25 Cr. The company has further prepaid term loan to the tune of Rs.105.00 crore in November, 2022. Debt coverage indicators improved though continued to remain high marked by interest coverage and total debt to GCA of 4.32x and 10.62x respectively (FY22: 1.74x and 14.04x). Higher realization during H1FY23 have also resulted in lower dependence of KPL on external borrowings to meet its working capital requirements marked by average utilization of 32.36 per cent during trailing 12 months ending October 2022. Further, the limits are negligibly utilized as on date.

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.

Industry Prospects: Paper consumption in India, which is approximately 15 million tons per annum, is expected to touch 23.5 tons per annum by 2025 and predicted to increase by 7.6 per cent per year. The per capita consumption of paper in India, however, is still very low at 14 kg per annum, as compared with the global average of 57 kg and over 200 kg in developed countries. The domestic market size is approximately INR 80,000 crores while exports of paper were valued at over INR 6,800 crores in FY 2019-20. The writing and printing paper segment was one of the worst-hit due to COVID-19 pandemic outbreak leading to closure of educational establishments, coaching centres, judicial establishments, corporate offices, and adoption of the new culture of work from home. The sector is now witnessing some signs of revival with lockdowns being lifted by states in a phased manner, resulting in gradual opening of educational institutes and offices. The Government's huge spending on healthcare and infrastructure sectors, RBI's liquidity measures and the massive vaccination drive helped economic recovery in the second half of FY 2020-21. Also, online reading is still at a nascent stage in the country, with e-book penetration estimated at only 3-4%. The demand for W&PP paper in India is expected to clock 6-7% CAGR owing to rising literacy rates, rise in enrolment rates and the government's higher spending on educational programs.

Liquidity: Adequate: Adequate liquidity characterized by sufficient cushion in expected gross cash accruals of around Rs. 210 Cr to Rs. 240 Cr to its debt obligations of Rs. 72.84 Cr during FY23. Cash and bank balance stood at Rs. 7.37 Cr as on September 30, 2022 along with fixed deposits of Rs.17.86 Cr. Further, the company has liquidity cushion with sufficient drawing power available as against the sanctioned limits. The limit utilization stood at 32.26% for the trailing twelve months ending October 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 and credit period received from suppliers is around one month. All this has led to a comfortable operating cycle of 35 days as on March 31, 2022 (PY: 56 days)

Analytical approach: Standalone

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

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)	FY21 (A)	FY22 (A)	H1FY23 (P)
Total operating income	403.88	830.40	617.50
PBILDT	29.77	120.29	162.43
PAT	-12.73	13.42	13.82
Overall gearing (times)	1.52	1.64	1.41
Interest coverage (times)	1.05	1.72	4.32

A: Audited, P: Provisional

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 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	45.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	53.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE A-; Stable
Fund-based - LT-Term Loan		-	-	March-2027	445.28	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	70.00	CARE A2+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	8.65	CARE A2+

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 A-; Stable	1)CARE BBB+; Stable (01-Sep-22)	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 A2 (01-Sep-22)	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 A-; Stable	1)CARE BBB+; Stable (01-Sep-22) 2)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	445.28	CARE A-; Stable	1)CARE BBB+; Stable (01-Sep-22)	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	8.65	CARE A2+	1)CARE A2 (01-Sep-22)	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 A-; Stable	1)CARE BBB+; Stable (01-Sep-22)	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- Not applicable

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 company

To 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Sachin Mathur
Phone: +91-11-45333206
E-mail: sachin.mathur@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-45333200
E-mail: swati.agrawal@careedge.in

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