# Kuantum Papers Limited (Revised)

December 09, 2021

**Ratings**

| Facilities/Instruments | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| **Long Term Bank Facilities** | **654.61 (Enhanced from 627.89)** | **CARE BBB; Stable [Triple B; Outlook: Stable]** | **Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned** |
| **Short Term Bank Facilities** | **81.25 (Reduced from 94.49)** | **CARE A3+ [A Three Plus]** | **Reaffirmed and removed from Credit watch with Negative Implications** |
| **Total Bank Facilities** | **735.86 (Rs. Seven Hundred Thirty-Five Crore and Eighty-Six Lakhs Only)** | | |
| **Fixed Deposit** | **45.00** | **CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]** | **Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned** |

Details of instruments/facilities in Annexure-1

## Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and fixed deposits of Kuantum Papers Limited (KPL) continue to derive strength from long track record of operations of the company with experienced management team & resourceful promoters, established supplier & distribution network, diversified product profile, proximity of manufacturing plant to raw material sources and comfortable capital structure. Further, the ratings also take cognisance of successful completion of the backward integration project to augment the installed capacity to 148,500 MTPA in March, 2021 as against 120,000 MTPA up to FY21 (refers to period from April 01 to March 31), thereby leading to improvement in the operational performance during H1FY22 (refers to period from April 01 to September 30).

However, the ratings remain constrained by intense competition in the writing and printing paper industry and vulnerability of profitability margins to volatility in the raw material prices.

The ratings have been removed from credit watch with developing implications in view of the successful implementation of KPL's application of One-Time Restructuring (OTR). The company had submitted the application for OTR to its lenders dated September 14, 2020 under the Reserve Bank of India's (RBI) guidelines issued on August 06, 2020. The resolution plan was invoked and approved by the lenders on December 24, 2020 and the Inter-Creditor Agreement (ICA) was signed by all lenders on January 22, 2021. The final Resolution Plan was implemented by all the Lenders and the Legal documents were signed and executed on 19 June 2021. The Resolution Plan was implemented within the stipulated time including the security perfection. Under the restructuring, the principal repayment obligations carry moratorium of two years with majority repayments starting September, 2022 onwards. Further, the interest on terms loans up to August 31, 2021 has been converted into Funded Interest Term loan (FITL), whereby its repayments would be co-terminus with TL repayments.

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

## Detailed description of the key rating drivers

### Key Ratings Strengths

**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. During FY21, unsecured loans of Rs.17.38 crore were infused by the promoters to meet the project funding requirements.

[1]Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

**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.

**Successful completion of backward integration project leading to improved operational performance in current year**
The company had undertaken a backward integration project spread over past two fiscals ending FY21 with a total outlay of Rs.444.33 crore comprising of enhancing the capacities of pulp and paper, chemical recovery plant and captive power plant in order to improve product quality & operations and achieve cost optimization. The project achieved COD in March, 2021 as against the expected timeline of execution by November, 2020 as post revival of operations at the unit after Covid-led disruptions, the progress on the project had remained slow due to constraints on labour front. However, there was no cost over-run in the project. The project was funded with term loan of Rs.333 crore, unsecured loans from promoters of Rs.17.38 crore and internal accruals of Rs.93.95 crore.
The pulping capacity increased from 70 TPD to 180 TPD thereby reducing dependence on imported hard wood pulp, a new chemical recovery plant of 500 TPD was installed thereby leading to better recovery of caustic soda and further new capacities were added in co-generation power plant leading to reduction in power cost, whereby it stood at 16.78% of total gross sales in H1FY22 as against 19.96% of total gross sales in FY21. Also, healthy realization for WPP on the back of surging waste paper prices have led to better profitability for KPL in the current year (H1FY22) where the input is agri-residue and the same is available to them in abundance at relatively lower prices.
Owing to the same, the operational performance of the company improved during H1FY22, whereby its capacity utilization levels increased to 95% as against 69% during full FY21. The company reported top-line of Rs.350.99 crore as against Rs.123.25 crore recorded during H1FY21. Despite the impact of second wave of COVID-19, it was only ~9% lower than the pre-pandemic sales of Rs.382.42 crore recorded during H1FY20. Further, the company reported operational profit of Rs.57.80 crore with PBILDT margin of 16.47% and net profit of Rs.5.06 crore with PAT margin of 1.44%.

**Moderate financial risk profile**
The capital structure of the company remained comfortable. Though, the overall gearing moderated and stood at 0.78x as on March 31, 2021 (PY: 0.63x) owing to deterioration in the net-worth base alongside the addition in term debt. Further, the debt coverage indicators also moderated. The interest coverage ratio and total debt to GCA stood at 1.24x and 219.72x respectively as on March 31, 2021 (PY: 4.09x and 6.40x respectively).

**Key Rating Weaknesses**
**Highly competitive and cyclical nature of industry**
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.
During FY21 owing to COVID-19 led disruptions, the manufacturing plants remained closed for long and the trend of work-from-home culture, severely impacted the demand for Writing & Printing paper segment, thereby company reported y-o-y de-growth by ~46% in the top-line which stood at Rs.409.22 crore (PY: Rs.752.85 crore).
Thereby, the PBILDT margin of KPL moderated by 836 bps and stood at 8.58% in FY21 (PY: 16.94%) with company reporting net losses of Rs.12.73 crore (PY: Net profit of Rs.71.81 crore).

**Vulnerability of profitability margins to volatility in the raw material prices**
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.

**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 expected in accruals of Rs.50.77 crore vis-à-vis repayment obligations of Rs.14.98 crore and modest cash balance of Rs.1.71 crore as on September 30, 2021. Further, the company has liquidity cushion to the extent of Rs.13.99 crore with 74.6% utilization of its fund-based limits for trailing 12 months ending Sept, 2021.
The average collection period of the company stood at a comfortable level of ~21 days, as on March 31, 2021, as payments from the distributors are realized within one month (PY: ~12 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 ~56 days, as on March 31, 2021 (PY: ~40 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. There after the name of the company was changed to KPL in 2012. The company is promoted by its Chairman, Mr. Jagesh Khaitan. 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 148,500 metric tonnes per annum (MTPA). 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 (Rs. crore) | 31-03-2020 (A) | 31-03-2021 (A) | H1FY22(Unaudited) |
|---|---|---|---|
| Total operating income | 752.85 | 409.22 | 350.99 |
| PBILDT | 127.54 | 35.11 | 57.80 |
| PAT | 71.81 | -12.73 | 5.06 |
| Overall gearing (times) | 0.63 | 0.78 | 0.81 |
| Interest coverage (times) | 4.09 | 1.24 | 1.71 |

A: Audited

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

**Any other information:** Not applicable

**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 | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. 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 A3+ |
| Fund-based - LT-Term Loan | - | - | - | March, 2030 | 599.61 | CARE BBB; Stable |
| Non-fund-based - ST-Credit Exposure Limit | - | - | - | - | 11.25 | CARE A3+ |
| Fund-based - LT-Cash Credit | - | - | - | - | 2.00 | CARE BBB; Stable |
| Fixed Deposit | - | - | - | - | 45.00 | CARE BBB (FD); Stable |

**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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1 | Fund-based - LT-Cash Credit | LT | 53.00 | CARE BBB; Stable | - | 1)CARE BBB (CWN) (14-Oct-20) | 1)CARE A-; Negative (08-Jan-20) | 1)CARE A-; Negative (28-Dec-18)<br><br>2)CARE A-; Stable (05-Oct-18)<br><br>3)CARE A-; Stable (06-Apr-18) |
| 2 | Non-fund-based - ST-BG/LC | ST | 70.00 | CARE A3+ | - | 1)CARE A3+ (CWN) (14-Oct-20) | 1)CARE A2+ (08-Jan-20) | 1)CARE A2+ (28-Dec-18)<br><br>2)CARE A2+ (05-Oct-18)<br><br>3)CARE A2+ (06-Apr-18) |
| 3 | Fixed Deposit | LT | 45.00 | CARE BBB (FD); Stable | - | 1)CARE BBB (FD) (CWN) (14-Oct-20) | 1)CARE A- (FD); Negative (08-Jan-20) | 1)CARE A- (FD); Negative (28-Dec-18)<br><br>2)CARE A- (FD); Stable (05-Oct-18)<br><br>3)CARE A- (FD); Stable (06-Apr-18) |
| 4 | Fund-based - LT-Term Loan | LT | 599.61 | CARE BBB; Stable | - | 1)CARE BBB (CWN) (14-Oct-20) | 1)CARE A-; Negative (08-Jan-20) | 1)CARE A-; Negative (28-Dec-18)<br><br>2)CARE A-; Stable (05-Oct-18)<br><br>3)CARE A-; Stable (06-Apr-18) |
| 5 | Non-fund-based - ST-Credit Exposure Limit | ST | 11.25 | CARE A3+ | - | 1)CARE A3+ (CWN) (14-Oct-20) | 1)CARE A3+ (CWN) (14-Oct-20) | 1)CARE A2+ (28-Dec-18) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 2)CARE A2+ (05-Oct-18) |
| 6 | Fund-based - LT-Cash Credit | LT | 2.00 | CARE BBB; Stable | - | 1)CARE A3+ (CWN) (14-Oct-20) | - | - |

* Long Term / Short Term

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

**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 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.

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