K R Pulp And Papers Limited (Revised)

December 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	109.57	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Short Term Bank Facilities	27.50	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	**137.07 (₹ One Hundred Thirty-Seven Crore and Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated September 17, 2021, placed the ratings of K R Pulp & Papers Limited (KRPL) under the 'issuer non-cooperating' category as KRPL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. KRPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and emails dated December 05, 2022, December 02, 2022 and December 01, 2022. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

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

Detailed description of the key rating drivers

At the time of last rating done on September 17, 2021 the following was the rating weaknesses (updated for the information available from Ministry of Corporate Affairs (MCA) website):

Key Rating Weaknesses

Project risks related to major expansion project

KRPL is planning a major expansion project to increase the production capacities from 1,02,500 tons per annum to 1,65,000 tons per annum at its plant in Shahjahanpur as well as modernise the plant. The project is expected to be executed over FY19 and FY20 and the new capacities are expected to commence operations in FY21. Total project outlay is estimated at around Rs 502 crore (nearly 2 times KRPL's net worth of Rs 250 crore as of March 31, 2018) which will be funded by term loan of Rs.380 crore and balance Rs 122 crore from internal accruals. The financial closure for the term loans, which account for 75% of the funding, is still under process. For funding the equity portion, the company will use its cash reserves and marketable securities which stood at around Rs.70 crore of as of September 2018 and its annual internal accruals. Given the significant size of the expansion project, it entails significant implementation and stabilization risks and any time and cost overruns in the project may impact the credit profile of the company. CARE doesn't have the sufficient information to comment upon the updated project status of company.

Expected moderation in financial risk profile owing to major debt funded capex plans

KRPL's financial risk profile is expected to moderate over the medium term owing to substantial debt to be taken to fund its expansion project. The company plans to raise a debt of around Rs.380 cr which will adversely impact the capital structure of the company going forward. The company is yet to achieve financial closure for the project. The management expects the project to be commissioned by FY21 and any time or cost overrun for the project will be critical for the financial risk profile of the company and will be key rating monitorable going ahead.

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

Susceptibility of profitability to volatile raw material prices with limited ability to pass on the impact to customer

The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players and threat from imports. This limits the pricing power of the manufacturers in terms of flexibility to pass on the raw material price fluctuation to its customers. KRPL primarily uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. Being a mid-sized player, operating margins of the company are directly impacted by the volatility in the prices of raw materials, although, the company primarily procures raw material from nearby regions leading to savings in logistics cost.

Cyclical nature of industry

The demand for paper is directly correlated to the level of economic activity, as higher industrial output leads to increased demand for industrial paper for packaging; increased marketing spend benefits the newsprint and value-added segments; and greater education and office activities raises the demand for WPP. Further, paper being a commodity, is exposed to economic cycles; while demand for it is expected to grow steadily, given the cyclical nature of the industry.

Key rating Strengths

Experienced and resourceful promoters

KRPL is a closely-held company, being managed by Mr. Madho Gopal Agarwal along with his two brothers, Mr. Raj Gopal Agarwal and Mr. Gopal Agarwal, managing different operations of the company. KRPL commenced operations with manufacturing of Kraft paper in 1998 and later on expanded into writing and printing paper (WPP) during 2010. KRPL has an established and experienced management team looking after various functions including marketing, commercial, purchase, production, finance, technical, etc.

Healthy capacity utilization and cost-effective production set-up with integrated operations

The company manufactures Kraft paper (KP), writing & printing paper (WPP) and soda ash which contributed 19%, 79% and 2%, respectively, of the total income during FY18. Existing capacities are more than 90% utilised and the company is planning to expand its capacities as well as upgrade its product portfolio through major expansion cum modernization project over FY19 and FY20. KRPL enjoy healthy profitability margins which stood at 16.05% in FY21 on the back of integrated and cost-effective production set up and easy access to raw material. KRPL's plant includes pulping and paper mill, captive power plant of 15 MW, a caustic recovery plant and soda ash plant. Furthermore, KRPL's manufacturing facility is located in the agricultural belt of central Uttar Pradesh surrounded by sugar mills and flour mills, from which it sources its raw material requirement. The major raw material required for KRPL is bagasse and wheat straw.

Well-established marketing and distribution network

The company mainly sells paper through dealers. As the company has been in this line of business for over 20 years, it has an established dealer network across the northern and western India for its Kraft paper and writing & printing paper (WPP). The company caters to various multinational companies in industries like food and beverages, FMCG, pharmaceuticals, educational institutions, plywood industry, etc.

Analytical approach: Standalone

Applicable criteria

Policy in respect of Non-cooperation by issuer
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

KRPL, a closely-held limited company, was incorporated in 1995 by Mr. Madho Gopal Agarwal along with his two brothers, Mr. Raj Gopal Agarwal and Mr. Shri Gopal Agarwal. KRPL is engaged in the manufacturing of writing and printing paper (WPP), kraft paper (KP) and absorbent kraft paper from agro-residue raw material like bagasse, wheat straw etc. The company also sells soda ash, which is manufactured from its recovery plant. The manufacturing plant is located at Shahjahanpur, Uttar Pradesh, with licensed capacity for KP and WPP stood at 40,000 metric tonnes per annum (MTPA) and 80,000 MTPA, respectively, in

FY18. In addition, the licensed capacity for soda ash plant stood at 18,000 MTPA along with 15-MW captive co-generation power-plant.

Brief Financials (₹ crore)	March 31, 2021(A)	March 31, 2022(A)	8MFY23* (Prov.)
Total operating income	356.61	NA	NA
PBILDT	57.23	NA	NA
PAT	36.11	NA	NA
Overall gearing (times)	0.52	NA	NA
Interest coverage (times)	19.18	NA	NA

A: Audited; NA-Not Available; Prov.: Provisional
** Refers to the period from April 1, 2022 to November 30, 2022.*

Status of non-cooperation with previous CRA:
CRISIL Ratings has conducted the review and has maintained rating of K R Pulp & Papers Limited in 'Issuer Not Cooperating' category vide its press release dated 12-Sep-2022.

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
Fund-based - LT-Term Loan		-	-	March, 2021	14.57	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based-Long Term		-	-	-	95.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	27.50	CARE A4+; ISSUER NOT COOPERATING*

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-Term Loan	LT	14.57	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (17-Sep-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (01-Jul-20) 2)CARE BBB; Stable; ISSUER NOT COOPERATIN	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (01-Apr-19)

							G* (24-Jun-20)	
2	Non-fund-based - ST-BG/LC	ST	27.50	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+; ISSUER NOT COOPERATING* (17-Sep-21)	1)CARE A4+; ISSUER NOT COOPERATING* (01-Jul-20) 2)CARE A3; ISSUER NOT COOPERATING* (24-Jun-20)	1)CARE A2+; ISSUER NOT COOPERATING* (01-Apr-19)
3	Fund-based-Long Term	LT	95.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (17-Sep-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (01-Jul-20) 2)CARE BBB; Stable; ISSUER NOT COOPERATING* (24-Jun-20)	1)CARE BBB+; Stable; ISSUER NOT COOPERATING* (01-Apr-19)

*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	Fund-based - LT-Term Loan	Simple
2	Fund-based-Long Term	Simple
3	Non-fund-based - ST-BG/LC	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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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