Kuantum Papers Limited

June 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	453.97 (Reduced from 500.28)	CARE A; Stable	Revised from CARE A-; Stable
Short Term Bank Facilities	51.55 (Reduced from 78.65)	CARE A1	Revised from CARE A2+
Fixed Deposit	45.00	CARE A; Stable	Revised from CARE A-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in ratings assigned to the bank facilities and fixed deposit instrument of Kuantum Papers Limited (KPL) reflects better than envisaged operational performance marked by y-o-y growth of ~57% in total operating income to Rs. 1,310 Cr during FY23 *(refers to the period from April 01 to March 31)* coupled with substantial improvement in profitability with PBILDT margin of 29% as against 14.49% during the previous fiscal. The improvement in operations is backed by robust demand for writing & printing paper (WPP) leading to highest ever realizations in the WPP segment. Further, the rating draws comfort from healthy cash flow from operations of Rs. 363.17 Cr which was partially utilised to prepay the term debt to the tune of Rs. 243 Cr during FY23 besides its scheduled repayments resulting into improvement in company's overall financial risk profile. Furthermore, the ratings continue to derive strength from experienced management team and resourceful promoters, established supplier and distribution network, diversified product profile and proximity of manufacturing plant to raw material sources. However, the ratings continue to remain constrained due to intense competition in the writing and printing paper industry and vulnerability of profitability margins to volatile raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations to more than Rs. 2000 Cr along with PBILDT margin of more than 25% on sustained basis.
- Significant reduction in debt/ PBILDT to less than 1.00x along with improvement in capital structure and healthy liquidity position.

Negative factors

- Any debt funded capex resulting in deterioration of capital structure leading to overall gearing of more than 0.70x as on March 31, 2024, and 0.45x as on March 31, 2025.
- Diversification into an unrelated business.
- Decline in scale of operations with moderation in PBILDT margin below 20%.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to sustain its healthy operating performance owing to favorable demand scenario over the medium term. The entity is also expected to sustain its financial risk and liquidity profile amidst healthy cash flow generation from operations.

Detailed description of the key rating drivers:

Key strengths

Improved operational performance

KPL's scale of operations grew by ~57% y-o-y from Rs. 830.40 Cr in FY22 to Rs. 1,309.56 Cr in FY23 on account of substantial improvement in net sales realisation (NSR) to ~Rs. 85,000 per MT during the year (PY: ~Rs. 54,000 per MT) alongside sustained healthy volumes at 1,52,304 MT (PY: 1,51,674). KPL's PBILDT margin rose to 29% in FY23 from 14.49% in FY22 on account of the sharp increase in net sales realisation (NSR). Paper demand rebounded in FY22 to some extent despite continued online classes in educational institutions and the hybrid working model adopted by various offices for a large part of the year. With full normalisation in FY23, demand grew further coupled with the rise in global pulp and wastepaper prices leading to a significant

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

rise in paper prices thereby limiting imports which has benefitted integrated players, especially the players that use agro residue as raw material. The sharp increase in prices led to a better than envisaged PBILDT despite an increase in input costs. The improvement in profitability is further supported by backward integration project commissioned in March 2021 resulting in improved efficiency due to de-bottlenecking of operations and upgradation of plant. With an easing of supply pressures, leading to a correction in global pulp and paper prices over the past few months and a gradual increase in paper imports into India, paper prices are expected to witness some moderation in FY24. Notwithstanding, KPL's profitability is expected to remain comfortable with continued focus on operational efficiency and costs optimization measures such as installing a new rice straw boiler, thereby reducing power and fuel costs.
Going forward, with the envisaged capital expenditure of ~Rs. 340 crore to be spread over next two years is expected to bring in incremental revenue and economies of scale, thereby leading to further improvement in operational performance of the company and thus shall remain a key monitorable.

Comfortable financial risk profile owing to significant reduction in debt aided by healthy cash flow generation
The capital structure improved marked by overall gearing of 0.83x as on March 31, 2023 (1.64x as on March 31, 2022) on account of prepayment of debt to the tune of Rs. 243 Cr (~43% of the restructured debt) in addition to scheduled repayments. The same is backed by improved operational performance leading to healthy cash flow generation. Improvement in profitability led to improved debt coverage indicators marked by interest coverage ratio of 5.31x for FY2023 (PY: 1.72x) and total debt/PBILDT of 1.27x (PY: 6.34x). Further, the company is undertaking capex in two tranches of which capex of approximately Rs. 57 Cr is expected to be completed by September 2023 against which debt has already been sanctioned. For the balance ~Rs. 285 Cr, funding is expected to be routed through internal accruals. Any further increase in debt may lead to deterioration in the financial risk profile of the company and hence remain a key monitorable.

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. There has been a track record of financial support by promoters in the form of unsecured loans.

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, stiffener paper, coloured paper and base paper for various specialty paper products i.e. paper cups, paper straws, thermal rolls etc with a GSM range of 42 – 200 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 and the company also exports paper to overseas markets. 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 weaknesses

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 by setting up a chemical recovery plant.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in expected accruals of ~Rs. 260 crore vis-à-vis repayment obligations of Rs. 56.87 crore during FY24 and modest cash balance of Rs.11.06 crore as on March 31, 2023. The cash accruals are expected to be sufficient to fund the planned capex of Rs. 285 Cr to be spread over next two fiscals. Further, the company has liquidity cushion with sufficient drawing power available as against the sanctioned limits. The fund-based limit utilization stood at ~39.49% for the trailing twelve months ending April, 2023 while the non-fund based are utilized at an average of ~17%. Further, the current ratio stood at 0.98x as on March 31, 2023 (PY: 1.14x).

Environment, social, and governance (ESG) risks

For the paper industry, primary ESG affecting the sector is the environmental aspects like pollution control norms. Governance remain a universal concept affecting all sectors and geographies. Among the ESG factors, majority of the paper companies seems to be focusing on pollution control norms as paper industry is one of the most pollution emission industries, as identified and categorized by Central Pollution Control Board (CPCB). In order to reduce the emission, the companies in this sector install chemical recovery plants, effluent treatment plants, etc.

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
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

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, Vice Chairman & 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. The company has expanded its product portfolio and brands over a period of time and sells its products under various brands like Kuantum Gold, Kappa Premium, Kopy+, Kosheen, Kresto, Kosmo Litho and K-One, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	830.40	1,309.56
PBILDT	120.29	379.79
PAT	13.42	136.15
Overall gearing (times)	1.64	0.83
Interest coverage (times)	1.72	5.31

A: Audited; 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 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	45.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	68.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	March-2027	373.97	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	45.00	CARE A1
Non-fund-based - ST-Credit Exposure Limit		-	-	-	6.55	CARE A1

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	68.00	CARE A; Stable	-	1)CARE A-; Stable (05-Dec-22) 2)CARE BBB+; Stable (01-Sep-22)	1)CARE BBB; Stable (09-Dec-21)	1)CARE BBB (CW with Negative Implications) (14-Oct-20)
2	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1	-	1)CARE A2+ (05-Dec-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (09-Dec-21)	1)CARE A3+ (CW with Negative Implications) (14-Oct-20)
3	Fixed Deposit	LT	45.00	CARE A; Stable	-	1)CARE A-; Stable (05-Dec-22) 2)CARE BBB+; Stable (01-Sep-22) 3)CARE BBB; Stable (22-Jun-22)	1)CARE BBB (FD); Stable (09-Dec-21)	1)CARE BBB (FD) (CW with Negative Implications) (14-Oct-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
4	Fund-based - LT-Term Loan	LT	373.97	CARE A; Stable	-	1)CARE A-; Stable (05-Dec-22) 2)CARE BBB+; Stable (01-Sep-22)	1)CARE BBB; Stable (09-Dec-21)	1)CARE BBB (CW with Negative Implications) (14-Oct-20)
5	Non-fund-based - ST-Credit Exposure Limit	ST	6.55	CARE A1	-	1)CARE A2+ (05-Dec-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (09-Dec-21)	1)CARE A3+ (CW with Negative Implications) (14-Oct-20)
6	Fund-based - LT-Cash Credit	LT	12.00	CARE A; Stable	-	1)CARE A-; Stable (05-Dec-22) 2)CARE BBB+; Stable (01-Sep-22)	1)CARE BBB; Stable (09-Dec-21)	1)CARE A3+ (CW with Negative Implications) (14-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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	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: Lender details

To view the lender wise details of bank facilities please click here

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 for any clarifications.

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About us:

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