

## Genus Paper & Boards Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	293.10	CARE BBB-; Negative	Revised from CARE BBB; Stable
Short Term Bank Facilities	126.54	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Genus Paper and Boards Limited (GPBL) takes into consideration sequential decline in profitability in both paper and coke business in FY23 and lower than expected growth in volume and decline in realization price of kraft paper during Q1FY24 (refers to the period from April 01, 2023 to June 30, 2023). Further, there was operating loss in coke business in Q1FY24 due to plant shutdown on account of highly volatile coking coal (main raw material) prices, and significant debt repayments in the ensuing quarters. The ratings continue to favourably factor in comfortable capital structure marked by high net-worth and low overall gearing, group with business interest spanning across 2-3 sectors and financial flexibility as reflected by infusion of unsecured loans in GPBL. The ratings further derive strength from company's long track record of operations in the kraft paper industry, established dealer network, timely completion of large size capex for capacity augmentation and a diversified customer base. The ratings are however constrained by vulnerability of profitability margins to the fluctuation in raw material prices as well as foreign exchange rates, exposure to group entities with advances and investments into unrelated businesses and intense competition in paper industry.

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

#### Positive factors

- Improvement in scale of operations with ROCE above 9% on a sustained basis.
- Improvement in debt coverage indicators with total debt/PBILDT below 3.50x on a sustained basis.

#### Negative factors

- Deterioration in scale of operations with the PBILDT margin below 5.00% on a sustained basis.
- Deterioration in capital structure with overall gearing above 1.50x on a sustained basis

### Analytical approach: Consolidated

Genus Paper and Coke Limited (GPCL) is a wholly owned subsidiary of Genus Paper and Boards Limited. Due to GPBL's control over the management of GPCL and financial support from GPBL to GPCL in the form of corporate guarantee to the bank facilities, consolidated approach has been considered.

### Outlook: Negative

The negative outlook is assigned on account of expected weakening of operational performance in both paper and coke segment on the back of reduction in realization price of kraft paper due to reduction in waste paper (key raw material prices). The outlook maybe revised to stable on the back of improvement in realization price of kraft paper with increase in scale of operations of both paper as well as coke segment coupled with improved profitability.

### Detailed description of the key rating drivers:

#### Key strengths

**Comfortable financial risk profile:** The overall gearing at consolidated level although comfortable deteriorated to 0.76x as on March 31, 2023 (PY: 0.52x) due to debt taken to fund capex (details mentioned below). The debt coverage indicators although deteriorated stood moderate in FY23 (refers to the period from April 01, 2022 to March 31, 2023) as reflected by interest coverage and total debt to GCA of 1.73x (PY: 6.14x) and 22.84x (PY: 6.30x) respectively.

**Experienced promoters and long track record of operations:** GPBL is promoted by Mr. Ishwar Chand Agarwal, who has a rich experience of over three decades in the industry. The day to day operations are looked after by his son, Mr. Kailash Chandra Agarwal, Managing Director, having an experience of over 27 years in the business of power infrastructure, electronics, steel and paper products. GPBL has a long track record of operations of more than 24 years over which management has developed a

<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

healthy relationship with customers and suppliers. GPBL is a paper manufacturer of various grades of Kraft paper and duplex paper (waste paper based).

**Established dealer network along with diversified customer base:** GPBL's products are sold through a network of around 30- 35 dealers located in different states of India including Uttar Pradesh, Uttarakhand, Rajasthan, Bihar, etc. The management has established strong relationships with their customers which are reflected in the form of repeat sales to them. Further, the revenue profile is diversified with top 5 customers contributing ~39% of the total sales in FY22 (PY: ~30%).

**Timely completion of capex:** GPBL has completed capex of Rs.225.00 crore in FY22. This includes ~Rs.118.00 crore towards acquisition of NS Papers Limited (an existing paper manufacturing unit in Muzaffarnagar with an installed capacity of 66,000 MTPA (Metric tonne per annum) of kraft paper and 74,250 MTPA of duplex paper), ~Rs.82.00 crore for capacity expansion of Muzaffarnagar Unit (kraft paper capacity increased from 66,000 MTPA to 1,32,000 MTPA and duplex paper capacity increased from 74,250 MTPA to 1,00,000 MTPA), ~Rs.20.00 crore towards capacity expansion of Moradabad unit from 1,40,000 MTPA to 1,52,000 MTPA, and remaining for regular maintenance capex.

The commercial production of duplex paper unit in Muzaffarnagar began from April, 2022 onwards while the kraft paper unit was started in 2 phases with Phase-1 beginning from June, 2022 onwards and Phase-2 beginning from Phase-2 onwards. The aforementioned capex was funded by term loan of Rs.140.00 crore, preference share capital infusion from promoters to the tune of Rs.15.00 crore (non-convertible and redeemable with a tenor of 20 years), Rs.29.00 crore through liquidation of loans and advances, and remaining Rs.6.00 crore from internal accruals.

### Key weaknesses

**Deterioration in operational performance during FY23 and Q1FY24:** Although, the total operating income at consolidated level grew by ~24% to Rs.721.65 crore in FY23 (PY: Rs.582.35 crore), the PBILDT margin declined substantially to 4.47% in FY23 (PY: 8.85%) due to increase in power and fuel and raw material cost. The company at consolidated level reported net loss of Rs.11.76 crore in FY23 (PY: PAT margin of 4.43%) as a result of decline in PBILDT margin and higher interest expense (owing to debt availed).

During Q1FY24, the total operating income at consolidated level declined by ~20% to Rs.178.18 crore on q-o-q (quarter on quarter) basis owing to decline in realization price of kraft paper. The PBILDT margin at consolidated level stood at 7.02% during Q1FY24. However, owing to lower scale of operations, high interest payments, and operating loss in coke business due to plant shutdown on account of highly volatile coking coal (main raw material) prices, the company at consolidated level reported net loss of Rs.1.06 crore in Q1FY24. Going forward, ramp up in production in paper as well as coke business would remain a key monitorable given the high debt repayments in the ensuing quarters. Further, GPBL has started production of Writing and printing paper and going forward the same should drive profitability given high realization in that segment vis-à-vis kraft paper.

**Exposure to raw material price volatility and foreign exchange risk:** The major raw material for GPBL's product is waste paper, constituting ~70%-80% of the total cost of sales and its price remains volatile, thus exposing GPBL to the volatility in the prices of raw materials which has a bearing on its profitability margins. Due to substantial rise in waste paper prices during FY22 and FY23, GPBL reported subdued PBILDT margin in the range of ~5% and ~4% respectively. GPBL sources its raw material from domestic and foreign suppliers wherein ~49% of the raw material is imported. GPBL's raw material cost is exposed to foreign exchange risk. The company does not have any formal foreign currency hedging strategy in place and it may impact the company's profitability margins.

**Stringent pollution control norms:** Paper industry is one of the most polluting industries, as identified and categorized 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. GPBL has an adequate Effluent treatment Plant (ETP) in place with a capacity to treat two times the quantity of waste water produced by the company.

**Exposure to the group companies and into unrelated businesses:** GPBL invested regularly in the form of loans and advances and investments in the group companies and other third parties. The total exposure (i.e. investments and loans advanced) stood at Rs.73.75 crore (~16% of the net-worth) as on June 30, 2023. Going forward, movement in the group exposure shall remain a key monitorable.

**Highly fragmented and competitive industry:** The Kraft paper industry is highly fragmented in nature with stiff competition from large number of organized as well as unorganized players (small units account for ~60% of the industry size). Given the fact that the entry barriers to this industry are low, the players in this industry do not have pricing power and are exposed to competition induced pressures on profitability.

**Liquidity: Adequate:** The liquidity position at consolidated level although adequate has moderated compared to previous years as reflected by projected gross cash accruals of Rs.35.42 crore in FY24 (refers to the period from April 01, 2023 to March 31, 2024) against scheduled debt repayments of Rs.29.13 crore. Further, average utilization of working capital borrowings stood ~80% and ~78% for GPBL and GPCL respectively for trailing 14 months ended July 31, 2023. There is no major capex envisaged in the near to medium future. Going forward, unsecured loan from promoters and any further need based support will be a key monitorable if the operational performance and liquidity continues to dip.

### 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

Genus Paper Products Limited (GPPL) was incorporated in 1996. Pursuant to the Scheme of Arrangement which provided for the amalgamation of Genus Paper Products Limited (GPPL, transferor company) into Genus Power Infrastructures Limited (GPIL) and demerger of 'Non Power Infrastructure Undertaking/Business of GPIL into Genus Paper & Boards Limited (GPBL, the resulting company) w.e.f. April 01, 2011, the entire business of GPPL has been transferred to GPBL. GPBL is promoted by Mr. Ishwar Chand Agarwal and Mr. Kailash Chandra Agarwal. GPBL is primarily engaged in manufacturing of kraft paper and duplex paper. The manufacturing facilities of GPBL are located in Moradabad and Muzaffarnagar with installed capacity of 2,84,000 MTPA (Metric tonne per annum) for kraft paper and 1,00,000 MTPA as on September 30, 2022. Also, the company has its 12 MW co-generation captive power plant. During FY21, GPBL, has incorporated a wholly owned subsidiary named Genus Paper and coke Limited (GPCL) (formerly known as Kailash Paper and Coke Limited) on July 23, 2020. GPCL is engaged in manufacturing of met coke with an installed capacity of 96,000 MTPA at its plant located in Chopadava, Bhachau Gujarat.

### Industry classification

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

Brief Financials (Consolidated) (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	582.35	721.65	178.18
PBILDT	51.54	32.28	12.50
PAT	25.79	-11.76	-1.06
Overall gearing (times)	0.52	0.76	0.80
Interest coverage (times)	6.14	1.73	1.62

A: Audited UA: Unaudited; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	111.71	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	June 30, 2030	181.39	CARE BBB-; Negative
Non-fund-based - ST-BG/LC		-	-	-	126.54	CARE A3

**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-Term Loan	LT	181.39	CARE BBB-; Negative	-	1)CARE BBB; Stable (23-Mar-23) 2)CARE BBB+; Negative (23-Nov-22) 3)CARE BBB+; Stable (26-Oct-22)	1)CARE BBB+; Stable (22-Oct-21)	1)CARE BBB+; Stable (23-Dec-20)
2	Fund-based - LT-Cash Credit	LT	111.71	CARE BBB-; Negative	-	1)CARE BBB; Stable (23-Mar-23) 2)CARE BBB+; Negative (23-Nov-22)	1)CARE BBB+; Stable (22-Oct-21)	1)CARE BBB+; Stable (23-Dec-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
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						3)CARE BBB+; Stable (26-Oct-22)		
3	Non-fund-based - ST-BG/LC	ST	126.54	CARE A3	-	1)CARE A3+ (23-Mar-23) 2)CARE A2 (23-Nov-22) 3)CARE A2 (26-Oct-22)	1)CARE A2 (22-Oct-21)	1)CARE A2 (23-Dec-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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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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