Kuantum Papers Limited

February 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	385.16	CARE A (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	66.55	CARE A1 (RWD)	Placed on Rating Watch with Developing Implications
Fixed Deposit	45.00	CARE A (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and fixed deposit instrument of Kuantum Papers Limited (KPL) have been placed on rating watch with developing implications on account of large size capex to the tune of Rs.735 crore announced by the company on February 1, 2024 on stock exchanges, which is substantially higher than the capex envisaged by CARE in the recently concluded review. The same entails upgradation of existing plant and machineries, debottlenecking of capacities along with a new tissue paper line, which is expected to be funded through a mix of debt, equity, internal accruals, and unsecured loans from promoters, however, the funding pattern of the overall project cost is not finalized yet. CARE will continue to monitor the developments in this regard and will take a view on the ratings, once the exact financial implications of the above on the credit profile of the company is clear.

The ratings continue to derive comfort from strong operational and financial performance during 9MFY24 (refers to the period from April 01, 2023 to December 31, 2023) marked by stable operating income and high PBILDT margin, and improvement in financial risk profile marked by prepayment of term loan and preference shares to the tune of Rs.30.00 crore during 9MFY24 (refers to the period from April 01, 2023 to December 31, 2023). 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, and capex to the tune of Rs.285.00 crore which is to be funded entirely through internal accruals.

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

Detailed description of the key rating drivers:

Key strengths

Healthy operational performance in FY23 and 9MFY24: During 9MFY24, the total operating income of the company remained stable at Rs.912.45 crore (PY: Rs.965.82 crore) largely on account of stable and high realization price of WPP to the tune of Rs.78,000 per MT (PY: Rs.85,000 per MT). The PBILDT margin further improved by 206 bps and stood at 29.53% in 9MFY24 (PY: 27.46%) owing to decrease in power and fuel costs. 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

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

expected to witness moderation in H2FY24. 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.
KPL's scale of operations grew by ~57% y-o-y from Rs. 830.40 Cr in FY22 (refers to the period from April 01, 2021 to March 31, 2022) to Rs. 1,309.56 Cr in FY23 (refers to the period from April 01, 2022 to March 31, 2023) 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% 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 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 was further supported by backward integration project commissioned in March 2021 resulting in improved efficiency due to de-bottlenecking of operations and upgradation of plant.

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 0.66x as on September 30, 2023 (0.83x as on March 31, 2023) on account of prepayment of debt coupled with accretion of profits to net-worth. Further, during 9MFY24, the company prepaid its term loan obligation and repaid a total of Rs.80.44 crore as against total scheduled term loan repayment of Rs.61.78 crore in FY24. The same was backed by improved operational performance leading to healthy cash flow generation. Debt coverage indicators of the company continued to remain healthy as reflected by PBILDT interest coverage and total debt/GCA of 8.06x and 1.30x in H1FY24 respectively. Further, the company is undertaking capex of Rs.285 crore pertaining to capacity enhancement, installation of tissue paper plant, new boiler, and increasing pulp mill capacity which is expected to be complete by March, 2025 (~Rs.40.00 crore incurred till date i.e. January 31, 2024) to be funded entirely through internal accruals. However, the same has been revised to Rs.735.00 crore vide announcement on stock exchange, however, the overall project cost is not finalized yet.

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.

Industry prospects: Careedge Ratings expects that as the demand softens and with an expected increase in global pulping capacity, the NPR (Net price realization) is expected to be in the range of Rs. 75,000 per tonnes to Rs. 85,000 tonnes for FY24 (refers to the period from April 01, 2023 to March 31, 2024). This moderation of NPR is expected to moderate the top line and operating margins by 200-300 bps from H2FY24 (refers to the period from October 01, 2023 to March 31, 2024), an after effect of softening of raw material prices in H1FY24 (refers to the period from April 01, 2023 to September 30, 2023).

Liquidity: **Adequate:** The liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.251.01 crore in FY24 against scheduled repayment of Rs. 61.78 crore. Further, during 9MFY24, the company has prepaid its term loan obligation and repaid a total of Rs.80.44 crore as against total scheduled term loan repayment of Rs.61.78 crore for FY24. The average utilization of working capital borrowings stood ~43% for the trailing 12 months ended December 31, 2023.

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 and industry

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.

Industry classification

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

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	830.40	1,309.56	912.45
PBILDT	120.29	379.79	269.45
PAT	13.42	136.15	149.94
Overall gearing (times)	1.64	0.83	NA*
Interest coverage (times)	1.72	5.31	NA*

A: Audited UA: Unaudited; NA*: Not available, 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
Fixed Deposit		ND*	8.50%-9.75% per annum	12 months to 36 months from issuance date	45.00	CARE A (RWD)
Fund-based - LT-Cash Credit		-	-	-	65.00	CARE A (RWD)
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE A (RWD)
Fund-based - LT-Term Loan		-	-	March-2027	295.16	CARE A (RWD)
Non-fund-based - ST-BG/LC		-	-	-	60.00	CARE A1 (RWD)
Non-fund-based - ST-Credit Exposure Limit		-	-	-	6.55	CARE A1 (RWD)

ND*: Can't be defined as multiple issuance dates for fixed deposits.

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	65.00	CARE A (RWD)	1)CARE A; Stable (05-Feb-24) 2)CARE A; Stable (07-Jun-23)	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	60.00	CARE A1 (RWD)	1)CARE A1 (05-Feb-24) 2)CARE A1 (07-Jun-23)	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)

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
3	Fixed Deposit	LT	45.00	CARE A (RWD)	1)CARE A; Stable (05-Feb-24) 2)CARE A; Stable (07-Jun-23)	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)
4	Fund-based - LT-Term Loan	LT	295.16	CARE A (RWD)	1)CARE A; Stable (05-Feb-24) 2)CARE A; Stable (07-Jun-23)	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 (RWD)	1)CARE A1 (05-Feb-24) 2)CARE A1 (07-Jun-23)	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	25.00	CARE A (RWD)	1)CARE A; Stable (05-Feb-24) 2)CARE A; Stable (07-Jun-23)	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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