Genus Paper & Boards Limited

March 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE BBB-; Negative and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A3 and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB-; Negative/CARE A3' [Triple B Minus; Outlook: Negative/ A Three] assigned to bank facilities of Genus Paper and Boards Limited (GPBL) with immediate effect. This action has been taken at the request of GPBL and 'No Objection Certificates' received from banks that have extended facilities rated by CARE Ratings.

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 as corporate guarantee to bank facilities, a consolidated approach has been considered. List of entities considered under consolidation are mentioned in **Annexure-6**.

Detailed description of key rating drivers:

Key strengths

Comfortable financial risk profile

Overall gearing at a 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). Debt coverage indicators, although deteriorated, stood moderate in FY23 (refers to 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 Ishwar Chand Agarwal, who has a rich experience of over three decades in the industry. Day-to-day operations are looked after by his son, Kailash Chandra Agarwal, Managing Director, having experience of over 27 years in power infrastructure, electronics, steel, and paper products businesses. GPBL has a long track record of operations, spanning more than 24 years, over which the management developed healthy relationships 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 across India including Uttar Pradesh, Uttarakhand, Rajasthan, and Bihar, among others. The management has established strong relationships with their customers, reflected from repeat sales. The revenue profile is diversified with top 5 customers contributing ~39% of total sales in FY22 (PY: ~30%).

Timely completion of capex

GPBL completed capex of ₹225.00 crore in FY22. This includes ~₹118.00 crore towards acquiring 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), ~₹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), ~₹20.00 crore towards capacity expansion of Moradabad unit from 1,40,000 MTPA to 1,52,000 MTPA, and remaining for regular maintenance. The commercial production of duplex paper unit in Muzaffarnagar began from April 2022 onwards, while the kraft paper unit was started in two phases with Phase-1 beginning from June 2022 onwards and Phase-2 beginning from October 2022 onwards. This capex was funded by term loan of ₹140.00 crore, preference share capital infusion from promoters worth ₹15.00 crore (non-convertible and redeemable with a tenor of 20 years), ₹29.00 crore through liquidation of loans and advances, and remaining ₹6.00 crore from internal accruals.

Key weaknesses

Deteriorating operating performance in FY23 despite recovery in 9MFY24

Although, the total operating income at consolidated level grew by ~24% to ₹721.65 crore in FY23 (PY: ₹582.35 crore), the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin declined substantially to 4.47% in FY23 (PY: 8.85%)

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

due to increase in power and fuel and raw material cost. At consolidated level, the company reported net loss of ₹11.76 crore in FY23 (PY: PAT margin of 4.43%) because of decline in PBILDT margin and higher interest expense (owing to debt availed).
The total operating income of the company at consolidated level improved marginally ~6% to ₹527.42 crore in 9MFY24 (refers to April 01, 2023 to December 31, 2023) (PY: ₹498.30 crore). However, the PBILDT margin of the company at consolidated level improved to 8.58% in 9MFY24 (PY: 3.89%) owing to improving PBILDT margin in paper segment, which improved from 2.22% in 9MFY23 to 8.67% in 9MFY24. At a consolidated level, the company reported a PAT margin of 0.57% in 9MFY24 as compared to net loss of ₹11.59 crore in 9MFY23.

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, exposing GPBL to raw material price volatility, which has a bearing on its profitability margins. Due to substantial rise in waste paper prices in FY22 and FY23, GPBL reported subdued PBILDT margin between ~5% and ~4% respectively. GPBL sources its raw material from domestic and foreign suppliers, where ~49% of the raw material is imported. GPBL's raw material cost is exposed to foreign exchange risk. The company does not have a formal foreign currency hedging strategy and may impact the company's profitability margins.

Stringent pollution control norms
The paper industry is one of the most polluting industries, as identified and categorised 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 manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting issues related to wastewater treatment, discharge and sludge disposal. GPBL has an adequate Effluent treatment Plant (ETP) with a capacity to treat twice the quantity of waste water produced by the company.

Exposure to the group companies and into unrelated businesses
GPBL invested regularly as loans and advances and investments in group companies and other third parties. The total exposure (investments and loans advanced) stood at ₹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 with stiff competition from large number of organised and unorganised players (small units account for ~60% of the industry size). Given that entry barriers are low, players in this industry do not have pricing power and are exposed to competition-induced pressures on profitability.

Applicable criteria

Definition of Default
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Genus Paper Products Limited (GPPL) was incorporated in 1996. Pursuant to the Scheme of Arrangement, which provided for 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) from April 01, 2011, the entire business of GPPL has been transferred to GPBL. GPBL is promoted by Ishwar Chand Agarwal and Kailash Chandra Agarwal. GPBL is primarily engaged in manufacturing kraft and duplex paper. GPBL's manufacturing facilities are in Moradabad and Muzaffarnagar with installed capacity of 2,84,000 MTPA (Metric tonne per annum) for kraft paper and 1,00,000 MTPA for duplex paper as on September 30, 2022. The company has 12 MW co-generation captive power plant. GPBL 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 met coke with an installed capacity of 96,000 MTPA at its plant 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)	9MFY24 (UA)
Total operating income	582.35	721.65	527.42
PBILDT	51.54	32.28	45.26
PAT	25.79	-11.76	2.99
Overall gearing (times)	0.52	0.76	NA*
Interest coverage (times)	6.14	1.73	1.92

A: Audited UA: Unaudited; NA*: Not available, note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: No applicable

Any other information: No applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	June 30, 2030	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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	-	-	1)CARE BBB-; Negative (24-Aug-23)	1)CARE BBB; Stable (23-Mar-23) 2)CARE BBB+; Negative	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			
		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
						(23-Nov-22) 3)CARE BBB+; Stable (26-Oct-22)		
2	Fund-based - LT-Cash Credit	LT	-	-	1)CARE BBB-; Negative (24-Aug-23)	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)
3	Non-fund-based - ST-BG/LC	ST	-	-	1)CARE A3 (24-Aug-23)	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)

LT: Long term, ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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

Annexure-6: List of all entities consolidated as on December 31, 2023

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Genus Paper and Coke Limited	Full	Common management and financial linkages.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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