Kuantum Papers Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	385.16	CARE A (RWD)	Continues to be on Rating Watch with Developing Implications
Short Term Bank Facilities	66.55	CARE A1 (RWD)	Continues to be on Rating Watch with Developing Implications
Fixed Deposit	45.00	CARE A (RWD)	Continues to be 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) continues to be 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. It entails upgradation of existing plant and machineries along with debottlenecking of capacities, which is expected to be funded through a mix of proposed debt, and internal accruals in the ratio of 3:1, however, the financial closure is pending, and clarity would emerge once the same is finalized. 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 FY24 (refers to the period from April 01 to March 31) marked by healthy cash accruals during the year despite slight moderation in scale of operations on the back of reduction in net sales realizations (NSR) witnessed across paper industry, however the operating profit margins remained stable owing to the continuous focus of the company on process and cost optimization measures post implementation of backward integration project in March, 2021. The ratings are further strengthened by improvement in financial risk profile marked by prepayment of term loan and preference shares to the tune of Rs.30.00 crore during the year. 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 project implementation as well as stabilization risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations to more than Rs.2000 crores along with PBILDT margin of more than 25% on sustained basis.
- Significant reduction Total debt/PBILDT to less than 1x along with improvement in capital structure and healthy liquidity position.
- Successful implementation and stabilization of the planned project, without any time and cost overruns.

Negative factors

- Deterioration in the operational performance thereby impacting the debt coverage indicators such as interest coverage ratio falling below 8.5x and total debt to GCA increasing beyond 2.5x.
- Decline in scale of operations with moderation in PBILDT margin below 20%.

Analytical approach: Standalone approach

Detailed description of the key rating drivers:

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

Key strengths

Stable Operational performance during FY24

Despite the overall downturn across paper industry, the company reported total operating income of Rs.1,211.30 crores during FY24, as against Rs.1,309.56 crores during FY23, thereby reporting y-o-y moderation of only ~8%. The average net sales realizations (NSR) of Writing & Printing Paper (WPP) stood at Rs.76,862 per tonnes in FY24 (PY: Rs.85,516 per tonnes). The PBILDT margin of the company remained almost stable at 28.08% in FY24 (PY: 29%) owing to the continuous focus of the company on process and cost optimization measures post implementation of backward integration project in March 2021. The PAT margin, however, improved by 478 bps and stood at 15.18% in FY24 (PY: 10.40%) supported by higher repayment of term loans against its term loan obligations. Also, the company redeemed its preference shares of Rs.30 crores during FY24. The company reported robust cash flow from operations to the tune of Rs.290.43 crores during FY24, which were also utilized to prepay its term loan obligations.

Comfortable financial risk profile

The capital structure of the company remained comfortable and improved with overall gearing ratio of 0.72x as on March 31, 2024 (PY: 0.83x). The improvement was owing to accretion of profits to net worth and repayment of term loans aggregating to Rs.80.44 crore (including prepayment). The same was backed by improved operational performance leading to healthy cash flow generation. Further, the debt coverage indicators of the company also stood comfortable with interest coverage ratio improving to 8.07x as on March 31, 2024 (PY: 5.31x) and total debt to GCA remaining almost stable at 2.13x as on March 31, 2024 (PY: 2.06x).

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. Further, company has recently introduced new product 'Kuantum Korra', which is specifically designed for the notebook segment. 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

Project Implementation and Stabilization Risk

The company is undertaking an expansion project of Rs.735 crores, spread over FY24 – FY26. The same is for the upgradation of existing plant and machineries and debottlenecking of capacities, post the surge in demand for paper with strong tailwinds in the form of National Education Policy (NEP) and single use plastic ban for Writing & Printing Paper Industry. For the same, the company is planning to enhance the existing capacity of paper machines from 450 TPD to 675 TPD, enhancement of agro-pulp capacity from 165 TPD to 198 TPD & wood pulp capacity from 200 TPD to 240 TPD, upgradation of turbine from 10 MW to 13.5 MW, installation of new centrifugal compressors for power cost reduction, enhanced product basket with 50 TPD speciality grade coated paper, and improvement of plantation infrastructure etc. The project is proposed to be funded by availing term loan of Rs.535 crores and remaining from internal accruals, whereby the financial closure is yet to be achieved. Out of the total project cost, ~20% has already been incurred which has been funded through debt of Rs.106 crores and remaining from internal accruals. The project is expected to achieve Commercial Operation Date (COD) by March, 2026 and the same is expected to enhance the overall capacities from 1,48,500 MTPA in FY24 to 2,50,000 MTPA by FY27.

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
There was a downtrend observed in the paper industry in FY24 on the back of fall in the realizations despite higher input costs on the back of increased competition from imports. There was a sharp drop in the prices of Packaging board as well as the Maplitho paper and the Coated paper with also a slight drop in the price of Copier paper. At the same time, there was some commodity price correction also including the pulp and coal and that gave some benefit, however wood cost which is a basic raw material for integrated pulp manufacturer remained very high and went up sharply by close to ~30 to 35% and therefore impacted the profitability. However, rebound is expected FY25 onwards as the adoption of New Education policy is likely to boost the demand for WPP segment along with increasing penetration of specialized and conventional packaging in sectors such as FMCG, healthcare, e-commerce, pharmaceuticals, etc. Other key demand factors will include a focus on innovative and attractive packaging and the shift from plastic to paper-based packaging in the FMCG and food & food product sectors.

Liquidity: Adequate
Adequate liquidity characterized by sufficient cushion in expected accruals of Rs.290.03 crores vis-à-vis repayment obligations of Rs.113.59 crores during FY25 and modest cash balance of Rs.70.59 crores as on March 31, 2024. Further, the company has liquidity cushion with sufficient drawing power available as against the sanctioned limits. The limit utilization stood at ~49% for the trailing twelve months ending May,2024.

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

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

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, 2024. 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)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	1,309.56	1,211.30
PBILDT	379.79	351.00
PAT	136.15	183.83
Overall gearing (times)	0.83	0.72
Interest coverage (times)	5.31	8.07

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	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)

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	65.00	CARE A (RWD)	-	1)CARE A (RWD) (13-Feb-24) 2)CARE A; Stable (05-Feb-24) 3)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)
2	Non-fund-based - ST-BG/LC	ST	60.00	CARE A1 (RWD)	-	1)CARE A1 (RWD) (13-Feb-24) 2)CARE A1 (05-Feb-24) 3)CARE A1 (07-Jun-23)	1)CARE A2+ (05-Dec-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (09-Dec-21)
3	Fixed Deposit	LT	45.00	CARE A (RWD)	-	1)CARE A (RWD) (13-Feb-24) 2)CARE A; Stable (05-Feb-24) 3)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)
4	Fund-based - LT-Term Loan	LT	295.16	CARE A (RWD)	-	1)CARE A (RWD)	1)CARE A-; Stable	1)CARE BBB; Stable

						(13-Feb-24) 2)CARE A; Stable (05-Feb-24) 3)CARE A; Stable (07-Jun-23)	(05-Dec-22) 2)CARE BBB+; Stable (01-Sep-22)	(09-Dec-21)
5	Non-fund-based - ST-Credit Exposure Limit	ST	6.55	CARE A1 (RWD)	-	1)CARE A1 (RWD) (13-Feb-24) 2)CARE A1 (05-Feb-24) 3)CARE A1 (07-Jun-23)	1)CARE A2+ (05-Dec-22) 2)CARE A2 (01-Sep-22)	1)CARE A3+ (09-Dec-21)
6	Fund-based - LT-Cash Credit	LT	25.00	CARE A (RWD)	-	1)CARE A (RWD) (13-Feb-24) 2)CARE A; Stable (05-Feb-24) 3)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)

LT: Long term; ST: Short term;

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: NA

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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