Chandpur Enterprises Limited

August 29, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	100.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Revised from CARE BBB-; Stable and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information

Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Chandpur Enterprises Limited (CEL) to monitor the ratings vide e-mail communications/letters dated August 21, 2024, August 13, 2024, August 08, 2024, July 25, 2024, etc. among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Chandpur Enterprises Limited's bank facilities will now be denoted as **CARE BB+; Stable; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating has been revised on account of non-availability of requisite information due to non-cooperation by CEL with CARE Ratings Ltd.'s efforts to undertake a review of the rating outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk.
Further, the rating remains constrained by sizeable debt-funded capex, exposure to cyclicity in the paper industry, and susceptibility of profitability to volatility in raw material prices.
The rating is, however, derives comfort from established position in the poster paper segment, vast experience of the promoters in the paper industry, healthy operational performance marked by steady growth in scale supported by higher capacity utilization along with uptick in volume sales and Net Sales Realizations (NSR) over the last two fiscals. The ratings also factor in above-average financial risk profile reflected in improvement in operating cycle and healthy debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained increase in the scale of operations along with profitability margins of more than 10%.
- Improvement in financial risk profile with an overall gearing of less than 1.30x.
- Achievement of project milestone as envisaged along with healthy capacity utilization and sales volume on sustained basis

Negative factors

- Significant drop in profitability and/or higher than expected debt levels leading to an overall gearing of more than 2.00x.
- Any cost overrun in the project thereby constraining liquidity

Analytical approach:

Standalone

Outlook: Stable

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

Detailed description of the key rating drivers:

Key weaknesses

Project risk
The company plans to upgrade its existing plant to improve the efficiency of the mill with a capital outlay of Rs. 73.39 Cr. CEL's existing plant has two units; unit 1 which is there since inception while unit 2 was commissioned in the mid of FY22, leading to increase in capacity from 40 tonnes per day to 60 tonnes per day. The planned capex would also lead to increase in capacity owing to improved paper drying rates and reduced breakdown. The total cost would be funded through a term loan of Rs. 50 Cr and the balance through infusion of unsecured loans and internal accruals. The capex would thus lead to slight moderation in financial risk profile of the company which would peak the overall gearing to ~1.65 times and hence, timely completion and commercialization of project would be key monitorable.

Exposure to intense competition and susceptibility of margins to volatility in raw material prices
Imports cater to 50-60% of the domestic demand for specialty paper. CEL also has to compete with other large domestic players with greater capacities, thus intensifying competition. Further, raw material cost accounts for ~75% of the total cost of sales. The company manufactures paper from domestic wastepaper as well as imported wastepaper, prices of which are highly volatile. This risk is mitigated by a moderate level of inventory of 35 days (PY: 61 days).

Cyclical industry
The paper industry is cyclical in nature and incumbents are exposed to volatility in raw material prices, as well as the threat of imports, which could prevent companies from passing on the increase in raw material prices. In addition, lumpy capacity additions that are not commensurate with demand growth could exert upward pressure on raw material prices and downward pressure on finished product prices, leading to a weakening of the profitability margins

Industry prospects: The paper industry, including paper, newsprint, and paper products, witnessed a significant improvement in operating margins of 926 basis points (bps) in FY23 compared to the previous year for the top 10 listed companies based on market capitalisation. This improvement was primarily driven by revenue growth of 45%. The industry experienced higher volumes and a notable surge of nearly 40% in net realization, which contributed to the sharp improvement in operating margins. In the first three quarters of FY23, the paper industry demonstrated robust financial performance, fuelled by pent-up demand and price hikes implemented by market players to capitalize on the surge in demand. However, during Q4FY23, the industry began showing signs of stabilization after achieving double-digit growth for eight consecutive quarters until Q3FY23. Factors such as China's ban on paper waste and supply disruptions resulting from the Russia-Ukraine war led to a significant increase in Net Price Realizations (NPR) worldwide, soaring from Rs. 70,000 per tonne to Rs. 100,000 per tonne. Looking ahead to FY24, CareEdge Ratings anticipates moderation in both topline and operating margins by 200 to 300 bps. This expectation is based on the stabilisation of demand and the cooling down of raw material prices, which is likely to result in a corresponding moderation of net price realisations.

Key strengths

Considerable improvement in operations during previous two fiscals
CEL successfully added additional paper line to augment capacity from 40 tonnes per day to 100 tonnes per day, trial run for which was started towards the end of FY21. CEL ramped-up its operations in FY23 (refers to the period from April 1 to March 31) to around 90% of the enhanced capacity, supported by healthy demand and net sales realization (NSR). This resulted in robust growth of 55% y-o-y in sales volume during FY23 (PY: 57%). Further, the NSR increased from Rs. 66,327 per ton in FY22 to Rs. 88,456 per ton in FY23 on the back of steady demand. The growth in volumes coupled with increase in NSR resulted in growth in CEL's revenue to Rs. 263.67 Cr in FY23 from Rs. 127.50 Cr during previous year. The company has registered a revenue of Rs. 57.08 Cr during Q1FY24 (refers to the period from April 1 to June 30). Furthermore, CEL is undertaking a capex to upgrade/ modernize the plant which would improve efficiency, quality of paper and is also expected to increase the capacity owing to improved paper drying rates and reduced breakdown. The project is expected to be completed by September 2024, and is likely to boost the company's scale going forward along with profitability margins.

Above-average financial risk profile

The overall financial risk profile of the company is above-average marked by moderate gearing and healthy debt coverage indicators. The net worth of the company stood low at Rs. 36.60 Cr as on March 31, 2023 (PY: Rs. 24.07 Cr), while the company's total debt outstanding stood at Rs. 53.66 Cr as on March 31, 2023, which includes term loan of Rs. 10.57 Cr, working capital borrowings of Rs. 35.76 Cr and unsecured loans from promoters amounting to Rs. 7.32 Cr. This led to an overall gearing of 1.47 times as on March 31, 2023. The debt coverage indicators stood healthy with interest coverage ratio of 8.73 times (PY: 4.51 times) and debt to PBILDT of 1.96 times for FY23 (PY: 3.77 times).

Liquidity: Adequate

CEL's liquidity is marked by projected cash accruals of ~Rs. 16 Cr against repayment obligations of around Rs. 3 Cr and unencumbered cash balance of Rs. 5.28 Cr as on March 31, 2023. With the gearing of 1.47 times as of March 31, 2023, and further plans of company to raise additional debt for its capex would lead to moderation in the overall gearing over the next two fiscals. The company is planning to raise debt to the tune of Rs. 50 Cr for its planned capex, repayments of which are expected to start after one-year from the commencement of operations. The company's operating cycle stood at 35 days as on March 31, 2023 (PY: 61 days). The fund-based limits are utilized at an average of ~60% for the trailing twelve months ending June 2023. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Applicable criteria

Definition of Default
Policy in respect of non-cooperation by issuers
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

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

Incorporated in the year 1992, CEL is engaged in the manufacturing of MG poster paper, and coated paper with its manufacturing plant located at Chandpur, Uttar Pradesh having an installed capacity of 100 tonnes per day. The company was initially promoted by Mr. Arvind Kumar Mittal along with his brothers and earlier it had three different segment i.e., food, steel, and paper. Post division of businesses between brothers, the paper segment having installed capacity of 40 tonnes per day was kept by Mr. Arvind K. Mittal, which was later expanded to 100 tonnes per day as a first capex undertaken after division. The company currently finds application of its products in segments such as thermal paper, sublimation paper, food wrapping, sugar & salt packaging, tobacco packing, soap packing and shoes wrapping.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	127.50	263.67	57.08
PBILDT	12.58	27.39	NA
PAT	1.83	12.64	NA
Overall gearing (times)	1.97	1.47	NA
Interest coverage (times)	4.51	8.73	NA

A: Audited; UA: Un-Audited; 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
Fund-based - LT-Cash Credit		-	-	-	40.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Proposed fund based limits		-	-	-	0.17	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	March 2025	59.83	CARE BB+; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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-Term Loan	LT	59.83	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (22-Aug-23)	-	-
2	Fund-based - LT-Cash Credit	LT	40.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (22-Aug-23)	-	-
3	Fund-based - LT-Proposed fund based limits	LT	0.17	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (22-Aug-23)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long 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-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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