Kuantum Papers Limited

October 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	856.94	CARE A; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	66.55	CARE A1	Reaffirmed and removed from Rating Watch with Developing Implications
Fixed Deposit	33.22	CARE A; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities and fixed deposit instrument of Kuantum Papers Limited (KPL) have been reaffirmed and removed from rating watch with developing implications while assigning a stable outlook to its long-term facilities. Ratings were earlier placed on 'rating watch with developing implications' for large size capex with an impending financial closure, which has been achieved now following entire debt tie-up with the same envisaged mix of debt and internal accruals of 73:27. The capex entails upgrading existing plant and machineries and debottlenecking of capacities at a total cost of ₹735 crore, which is expected to be funded by term loan of ₹535 crore and remaining from internal accruals.

The ratings continue to derive comfort from strong operational and financial performance in FY24 (refers to April 01 to March 31) marked by healthy cash accruals during the year despite slight moderation in scale of operations due to reduction in net sales realisations (NSR) across the paper industry. However, operating profit margins remained stable owing to the company's continuous focus on process and cost optimisation measures post implementing backward integration project in March 2021. In Q1FY25 (refers to April 01 to June 30), despite moderation in scale of operations, the company was able to maintain healthy operating margins due to benefits of backward integration project. 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, ratings continue to remain constrained due to intense competition in the writing and printing paper industry and profitability margins vulnerable to volatile raw material prices, and project implementation and stabilisation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations to more than ₹2000 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of over 25% on sustained basis.
- Significant reduction total debt (TD) to PBILDT to less than 1x, improvement in capital structure and healthy liquidity position.
- Successful implementation and stabilisation of the planned project, without time and cost overruns.

Negative factors

- Deterioration in operational performance, impacting debt coverage indicators such as interest coverage ratio falling below 8.5x and total debt to gross cash accruals (TD/GCA) increasing beyond 2.5x.
- Decline in scale of operations with moderation in PBILDT margin below 20%.

Analytical approach: Standalone approach

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects company to have stable operational performance. CARE Ratings also believes that KPL shall sustain its comfortable financial risk profile in the medium term.

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

Detailed description of key rating drivers:

Key strengths

Stable Operational performance

Despite overall downturn across paper industry, the company reported total operating income of ₹1,211.30 crore in FY24, against ₹1,309.56 crore in FY23, reporting y-o-y moderation of ~8%. The company's PBILDT margin remained almost stable at 28.08% in FY24 (PY: 29%) and the profit after taxes (PAT) margin stood at 15.18% in FY24 (PY: 10.40%) supported by higher repayment of term loans against its term loan obligations.
In Q1FY25 (refers to April 01 to June 30), the company's total operating income (TOI) moderated by ~10% and stood at ₹281.61 crore in Q1FY25 (Q1FY24: ₹313.65 crore). Moderation in performance was largely due to subdued demand for writing and printing paper (WPP) due to deferment of Government tenders, seasonal closing of educational institutions and courts for summer vacations, and input cost pressures arising from higher imported pulp cost due to higher ocean freight. This impacted net sales realisations of paper companies across industry. Despite these market challenges on pricing, the company was able to maintain a healthy PBILDT margin of 25.72% (Q1FY24: 35.17%), which has been due to the company's continuous focus on process and cost optimisation measures post implementation of backward integration project, which achieved commercial operation date (COD) in March 2021.

Comfortable financial risk profile

The company's capital structure remained comfortable and improved with overall gearing ratio of 0.72x as on March 31, 2024 (PY: 0.83x). Improvement was owing to accretion of profits to net worth and repayment of term loans aggregating to ₹80.44 crore (including prepayment), which was backed by improved operational performance leading to healthy cash flow generation. Debt coverage indicators also stood comfortable with interest coverage ratio improving to 8.07x as on March 31, 2024 (PY: 5.31x) and TD/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 manufacturing paper for over four decades, which helped establish long-standing business relationships with customers and getting regular orders from them. Jagesh Khaitan, Chairman, has an overall experience of around five decades and is associated with the company since its inception. The company's day-to-day affairs are managed by Pavan Khaitan, son of Jagesh Khaitan, who is assisted by a team of highly experienced professionals in their respective domains. Promoters have extended continuous financial support over the years to fund the company's business requirements. 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 such as azure laid papers, parchment paper, cartridge paper, ledger paper, stiffener paper, coloured paper, and base paper for specialty paper products including paper cups, paper straws, and thermal rolls among others, in 42 – 200 GSM range. Paper manufactured by the company find its application in printing books, note books, calendars, diaries, newspaper supplements, pamphlets, and computer stationary, among others. The company has recently introduced new product 'Kuantum Korra', which is specifically designed for the notebook segment. The diverse product mix provides comfort to KPL's revenue stream. KPL has pan-India network of over 90 dealers, across Delhi, Haryana, UP, MP, Punjab, West Bengal and Maharashtra; it also exports paper to overseas markets. Over the years, KPL has established a strong customer-base and gets repeat orders from most clients.

Location advantage leading to easy availability of raw material

KPL utilises agricultural residues such as wheat straw, kana grass and bagasse, while wood comprising wood chips, wood logs and bamboo are main raw materials. The plant is in the agriculture belt of Punjab, because of which, availability of such raw materials is in abundance. Since KPL has an established business relation with dealers engaged in selling wheat straw (long-standing of about four decades in the industry), it experiences no major issues in procurement. In the past, the company also widened supply chain partners to ensure regular availability of raw materials, spares and other inputs for an uninterrupted production.

Key weaknesses

Project implementation and stabilisation risk

The company is undertaking an expansion project of ₹735 crore, spread over FY24 – FY26, which is for upgrading existing plant and machineries and debottlenecking capacities. This is 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. The company is planning to enhance its existing capacity of paper machines from 450 TPD to 675 TPD, agro-pulp capacity from 165 TPD to 198 TPD and wood pulp capacity from 200 TPD to 240 TPD. It also plans to upgrade its turbine from 38 MW to 41.5 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 among others. The project is to be funded by term loan of ₹535 crore and remaining from internal accruals, where the entire term loan has been duly sanctioned by banks. Of the total project cost, ~23% has already been incurred; funded through debt of ₹77 crore and remaining from internal accruals up to August 31, 2024. The project is expected to achieve COD by March 2026, which is expected to enhance overall capacities from 1,48,500 MTPA in FY24 to 2,50,000 MTPA by FY26.

Highly competitive industry and margins susceptible to volatile raw material prices

The paper industry is highly fragmented with stiff competition from a large number of organised and unorganised players. This limits pricing power of manufacturers and puts further pressure on profitability. The industry is impacted by economic cycles. KPL majorly uses agro based raw material, which is purchased from domestic markets. With respect to agro-based raw materials, there are limitations due to seasonal availability, leading to high volatility in their prices. Therefore, the company's operating profitability remains highly susceptible to raw material price volatility. However, the company has insulated itself by undertaking backward integration and enhancing capacities of pulp, paper and co-generation power plant and 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 realisations despite higher input costs due to increased competition from imports. There was a sharp drop in prices of packaging board, maplitho paper and coated paper, with a slight drop in copier paper prices. There was also some commodity price correction also including pulp and coal, which gave some benefit. However, wood cost, which is a basic raw material for integrated pulp manufacturer, remained high and went up sharply by close to ~30-35%, impacting profitability. However, rebound is expected FY25 onwards as the adoption of the New Education policy is likely to boost demand for WPP segment and increasing penetration of specialised and conventional packaging in sectors such as FMCG, healthcare, e-commerce, and pharmaceuticals, among others. Other key demand factors will include a focus on innovative and attractive packaging and the shift from plastic to paper-based packaging in FMCG and food & food product sectors.

Liquidity: Adequate
Adequate liquidity characterised by sufficient cushion in expected accruals of ₹290.03 crore against repayment obligations of ₹113.59 crore in FY25 and modest cash balance of ₹70.59 crore as on March 31, 2024. The company has liquidity cushion with sufficient drawing power available against sanctioned limits. Limit utilisation stood at ~57% for 12-months ending September,2024.

Environment, social, and governance (ESG) risks
Primary ESG factors affecting the paper industry are pollution control norms. Governance remains a universal concept affecting all sectors and geographies. Majority paper companies seems to be focusing on pollution control norms, as paper industry is one of the most pollution emission industries, as identified and categorised by Central Pollution Control Board (CPCB). To reduce emission, companies in this sector install chemical recovery plants, and effluent treatment plants, among others.

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

KPL was incorporated in 1997 as 'ABC Paper Limited'. Paper operations commenced in 1980 under another group Company 'Amrit Banaspati Co. Limited' and was merged with ABC Paper Limited in 2007. The company's name was changed to KPL in 2012. The company is promoted by its Chairman, Jagesh Khaitan and Pavan Khaitan, Vice Chairman & Managing Director. The company is engaged manufacturing WPP at its manufacturing facility in Hoshiarpur (Punjab) with an installed capacity of 1,48,500 metric tonnes per annum (MTPA) as on March 31, 2024. KPL majorly utilises agricultural residue based raw materials including Kana grass, wheat straw and bagasse. The plant is in the agriculture belt of Punjab, because of which, availability of such raw material is in abundance. The company has expanded its product portfolio and brands over time and sells its products under brands including Kuantum Gold, Kappa Premium, Kopy+, Kosheen, Kresto, Kosmo Litho and K-One, among others.

Industry classification

Macroeconomic 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)	Q1FY25 (UA)
Total operating income	1,309.56	1,211.30	281.61
PBILDT	379.79	351.00	72.44
PAT	136.15	183.83	38.19
Overall gearing (times)	0.83	0.72	NA
Interest coverage (times)	5.31	8.07	8.09

A: Audited UA: Unaudited; Note: these are latest available financial results; NA: Not Available

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating history for last three years: Annexure-2
Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Fixed Deposit		-	-	-	33.22	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	65.00	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	25.00	CARE A; Stable
Fund-based - LT-Term Loan		-	-	March-2027	766.94	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	60.00	CARE A1
Non-fund-based - ST-Credit Exposure Limit		-	-	-	6.55	CARE A1

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 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; Stable	1)CARE A (RWD) (05-Jul-24)	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	1)CARE A1 (RWD) (05-Jul-24)	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	33.22	CARE A; Stable	1)CARE A (RWD) (05-Jul-24)	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	766.94	CARE A; Stable	1)CARE A (RWD) (05-Jul-24)	1)CARE A (RWD) (13-Feb-24)	1)CARE A-; Stable (05-Dec-22)	1)CARE BBB; Stable

						2)CARE A; Stable (05-Feb-24) 3)CARE A; Stable (07-Jun-23)	2)CARE BBB+; Stable (01-Sep-22)	(09-Dec-21)
5	Non-fund-based - ST-Credit Exposure Limit	ST	6.55	CARE A1	1)CARE A1 (RWD) (05-Jul-24)	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; Stable	1)CARE A (RWD) (05-Jul-24)	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 rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of 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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