Pakka Limited

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	458.43 (Enhanced from 445.53)	CARE BBB; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	10.51 (Reduced from 23.41)	CARE A3+	Reaffirmed and removed from Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pakka Limited have been reaffirmed and removed from rating watch with developing implications while assigning a stable outlook to its bank facilities. The ratings were earlier placed on 'rating watch with developing implications' on account of large size capex to the tune of Rs.670.00 crore with an impending financial closure. The project has now achieved the financial closure with partial equity infusion in form of new issue, share warrants and ESOP following partial debt tie-up of Rs.125.00 crore. The capex entails commissioning of new manufacturing line of greaseproof paper for flexible packaging, which is proposed to be funded through a mix of debt of Rs.450.00 crore, equity of Rs.176.26 crore and remaining from internal accruals.

The ratings continue to derive comfort from strong operational performance in FY24 (refers to the period April 01 to March 31) marked by healthy profitability margins owing to cost-effective production set-up with integrated operations along with steady cash accruals during the year despite slight moderation in scale of operations due to reduction in net sales realisations (NSR) across Kraft paper segment. The ratings further continue to derive comfort from comfortable financial risk profile, locational advantage in terms of raw material procurement, experienced and professional management team, long track record of operations, and established customer relationships backed by a robust selling and distribution network.

The ratings, however, continue to remain constrained due to proposed large size capex for capacity augmentation which is already delayed by 6 months against the original against the Scheduled Commercial Operation Date (SCOD) and thus exposes the company to complete the project in a timely manner without further delay and stabilization risk post commissioning, vulnerability of profitability margins to fluctuation in raw material prices, strict pollution control norms and highly competitive and cyclical nature of paper industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations above Rs.600.00 crore and PBILDT margin (profit before interest, lease rentals, depreciation and taxation) above 22% on a sustained basis.
- Sustained improvement in operational cash flows to maintain healthy liquidity and debt coverage indicators.

Negative factors

- Significant decline in scale of operations with the PBILDT margin below 15% on a sustained basis.
- Any large debt-funded capex adversely affecting capital structure leading to overall gearing above 1.50x on sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that Pakka Limited will maintain healthy profitability on back of experienced promoters, long operational track record along with long-standing relationship with reputed clients.

Detailed description of key rating drivers:

Key strengths

Moderate scale of operations albeit healthy profitability margins

During FY24, the company has witnessed the slight moderation in TOI (total operating income) by ~2% to Rs.408.24 crore as against Rs.415.85 crore in FY23 driven by reduction in net sales realisations (NSR).

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

Despite a slight dip in TOI, the profitability margins remain healthy as evidenced by PBILDT margin of 22.82% in FY24 (PY: 22.37%). The slight increase in PBILDT margin is primarily driven by cost-effective production setup coupled with integrated operations and company's shift towards direct-to-consumer (D2C) sales, which offer better margins.
H1FY25 (refers to the period from April 01, 2024 to September 30, 2024), the total operating income remained stable at Rs.207.88 crore (H1FY24: Rs.210.8 crore) with PBILDT margin of 20.80% (H1FY24: 22.61%).

Cost effective production set-up with integrated operations

The company has a cost-effective production set-up as characterized by captive power plant of 8.8 MW (Mega-watt) and a 145 MTPD (Metric tonne per day) soda recovery plant. The paper industry is capital and energy intensive in nature. Power cost constituted ~17% of total operating income in FY24 (PY: ~16%). To source its power requirements, the company has setup a captive power plant (rice-husk based) which takes care of major power requirement of the company, resulting in saving a major part of power cost for the company.

Locational Advantages in the form of easy availability of raw materials

The primary raw material used by the company in its manufacturing process is agro-based raw materials such as bagasse. The plant is located in Uttar Pradesh, which is the sugarcane hub of India, thus the plant benefits from ample availability of bagasse. Pakka Limited sources its entire bagasse fiber requirement from a 100 km radius of the plant. The company has been dealing with its top 10 suppliers for over 15 years, ensuring a reliable and consistent supply of raw materials.

Comfortable financial risk profile

The capital structure of the company remains comfortable, as marked by the healthy net worth base of Rs.264.23 crore as on March 31, 2024, as against the limited debt. The company's financial risk profile remains comfortable as marked by the overall gearing of 0.69x as on March 31, 2024 as against 0.50x as on March 31, 2023, this moderation is primarily due to new term of Rs.125.00 crore (disbursed amount of Rs.100.00 crore) availed for the projected debt funded capex in Ayodhya, Uttar Pradesh. Consequently, total debt/GCA (gross cash accruals) has moderated to 2.86x in FY24 (PY: 1.47x).
However, improvement in PBILDT margin led to improvement in debt coverage indicator as marked by interest coverage of 10.39x in FY24 (PY: 8.36x).

Experienced and professional management team

Pakka Limited, formerly known as Yash Papers Limited (until September 11, 2019) and Yash Pakka Limited (until July 06, 2023), was founded in 1981 by the late Mr. KK Jhunjhunwala. The company is currently led by Chairman Mr. Pradeep Vasant Dhobale, who brings over 30 years of industry expertise. Prior to joining Pakka Limited, Mr. Dhobale held a leadership position in the paper division of ITC. Mr. Jagdeep Hira holding a graduate degree, serves as the Managing Director, overseeing the overall operations of the company, with more than 20 years of industry experience.

Long track record of operations and established relationship with customers

The company has a long-standing presence in the paper industry, spanning over four decades. Which has helped in establishing long-standing business relationships with customers and getting regular orders from them. The company caters to various multinational companies in industries including tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals. Utilizing an established network of dealers throughout India, company distributes its products in the domestic market. Export of paper accounting for ~25% of the total revenue in FY24 (PY: ~24%) is carried out through merchant exports and agents appointed in various countries, to look after specific regions.

Key weaknesses

Project implementation and stabilisation risk

Pakka Limited is undertaking a large size capex of Rs.676.26 crore (~2.56x of tangible net-worth as on March December 31, 2024) spread over FY24-FY26 (refers to the period from April 01, 2023 to March 31, 2026) pertaining to manufacturing of grease proof paper for flexible packaging with a total capacity of 29,700 MTPA (Metric tonne per annum) for distribution within the domestic market. Presently, majority of the greaseproof paper requirement is met through imports.
The capex is proposed to be funded by debt of Rs.450.00 crore (~67%), equity of Rs.176.26 crore (~26%), and remaining through internal accruals (~7%). The term loan of Rs.125.00 crore has been duly sanctioned by banks and equity of Rs.173.43 crore infused in form of new issue, share warrants and ESOP (share warrants are partly paid and amount of Rs.73.44 crore yet to be received reaching total equity infusion to Rs.246.87 crore and replacing internal accruals). Of the total project cost, ~18.43% has already been incurred; funded through debt and equity infusion as on September 30, 2024. The project is expected to achieve COD by April 2026. The timely completion of capex with no further cost overrun would remain critical factor to monitor.

Highly fragmented and competitive industry along with volatile raw material price

The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. Pakka Limited uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. 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.

Stringent pollution control norms

The paper industry is recognized as one of the most environmentally impactful sectors, classified by the Central Pollution Control Board (CPCB) due to its extensive use of freshwater resources. Given that water is integral to nearly every stage of the manufacturing process, the industry generates significant volumes of wastewater and residual sludge waste, posing challenges in wastewater treatment, discharge, and sludge disposal. Pakka Limited has implemented an adequate Effluent Treatment Plant (ETP) to treat all wastewater generated by the company. Moreover, the has ensured compliance with CPCB regulations and norms governing environmental standards.

Industry Prospects

The paper industry experienced a downtrend in FY24, driven by declining realizations despite elevated input costs, primarily 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. However, corrections in commodity prices, such as pulp and coal, helped mitigate the extent of the downturn to some degree.

Liquidity: Adequate

The liquidity of the company remains adequate as reflected by sufficient cushion in accruals marked by projected gross cash accruals to the tune of Rs.57.08 crore in FY25 as against scheduled repayment of Rs.12.01 crore. Further, the company has healthy free cash & bank balance of Rs.53.54 crore as on March 31, 2024 (PY: Rs.0.77 crore) coupled with healthy operational cash flow of Rs.34.69 crore as on March 31, 2024 and strong current ratio of 1.98x as on March 31, 2024 (PY: 1.24x).

Environment, social, and governance (ESG) risks: Not Applicable

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

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

Pakka Limited (the name of the company was changed from Yash Papers Limited w.e.f. September 11, 2019 and Yash Pakka Limited w.e.f. July 06, 2023) was promoted in 1981 by Late Mr. KK Jhunjhunwala with an initial installed capacity of 1940 MT per annum in 1983. The company is engaged in manufacturing of machine glazed agro based 30 ~ 100 GSM paper of unbleached Kraft, bleached Kraft and coloured Kraft varieties. The company has also entered into the manufacture of tableware products since 2018. The total installed capacity of the company’s paper and pulp plant is 45,625 MTPA at its manufacturing plant located in Ayodhya, Uttar Pradesh.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	415.85	408.24	207.88
PBILDT	93.03	93.17	43.24
PAT	51.46	48.67	37.53
Overall gearing (times)	0.50	0.69	NA
Interest coverage (times)	8.36	10.39	7.67

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

Status of non-cooperation with previous CRA: Brickwork has continued the ratings assigned to the bank facilities of Pakka Limited to the 'issuer not -cooperating' category vide press release dated March 26, 2024 on account of its inability to carryout review in the absence of requisite information from the company.
India Ratings has continued the ratings assigned to the bank facilities of Pakka Limited to the 'issuer not -cooperating' category vide press release dated July 14, 2024 on account of its inability to carryout review in the absence of requisite information from the company.

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
Fund-based - LT-Term Loan		-	-	June, 2029	369.51	CARE BBB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	88.92	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.51	CARE A3+

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-Term Loan	LT	-	-	-	-	-	1)CARE BBB; Stable (30-Jul-21) 2)Withdrawn (30-Jul-21)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (30-Jul-21) 2)CARE BBB; Stable (30-Jul-21)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)CARE A3 (30-Jul-21) 2)Withdrawn (30-Jul-21)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (30-Jul-21) 2)CARE BBB; Stable (30-Jul-21)

5	Fund-based - LT-Term Loan	LT	369.51	CARE BBB; Stable	-	1)CARE BBB (RWD) (07-Mar-24) 2)CARE BBB; Stable (06-Apr-23)	1)CARE BBB; Stable (16-Feb-23)	-
6	Fund-based - LT-Working Capital Limits	LT	88.92	CARE BBB; Stable	-	1)CARE BBB (RWD) (07-Mar-24) 2)CARE BBB; Stable (06-Apr-23)	1)CARE BBB; Stable (16-Feb-23)	-
7	Non-fund-based - ST-BG/LC	ST	10.51	CARE A3+	-	1)CARE A3+ (RWD) (07-Mar-24) 2)CARE A3+ (06-Apr-23)	1)CARE A3+ (16-Feb-23)	-

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-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	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

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:
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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