# Venkraft Paper Mills Private Limited

February 20, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 86.90 (Enhanced from 82.40) | CARE BBB; Stable | Reaffirmed |
| Short-term bank facilities | 4.09 | CARE A3 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Ratings assigned to bank facilities of Venkraft Paper Mills Private Limited (Venkraft) continues to factor in its long track record of operations, diversified product portfolio and its established relationship with suppliers and customers. CARE Ratings Limited (CARE Ratings) considers the company was able to maintain the sales volume, but the total operating income (TOI) declined due to correction in paper prices. There is a delay in operationalisation of enhanced duplex board unit which would result in marginal income growth in FY25 against earlier estimates of 20-25% growth in FY25. The company continues to repay the debt per original schedule. Ratings continues to be constrained by its working capital-intensive operations, profitability susceptible to fluctuation in wastepaper prices and fragmented industry.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Increase in sales to over ₹600 crore while maintaining total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) of less than 2x.

### Negative factors

- Total outside liability to total net worth (TOL/TNW) of over 1.5x or ICR below 2.5x.

**Analytical approach:** Standalone

**Outlook:** Stable

CARE Ratings believes Venkraft will continue to sustain its plant's capacity utilisation aided by steady demand from its large customer base and will continue to benefit from long-standing experience of its promoters.

## Detailed description of key rating drivers:

## Key strengths

**Sales volume intact but decline in TOI**

In FY24, the company's TOI declined by over 20% to ₹345.8 crore in FY24 against ₹438.7 crore in FY23 due to reduction in paper prices. While the company's gross margins improved, PBILDT margins declined due to sticky fixed costs associated with operations. The company has been able to marginally improve sales volumes in duplex board and kraft paper. Due to stable paper prices and delay in operationalisation of enhanced duplex board capacity, CARE Ratings expects the company's TOI is likely to grow marginally by 5-7% in FY25.

**Satisfactory capital structure**

Despite increase in the company's borrowings to fund expansion of existing capacity, its overall gearing improved marginally to 0.84x as on March 31, 2024, (PY: 0.91x) due to accretion of profits to net worth and scheduled repayments of its term debt. With improving net worth year-over-year (y-o-y), the company's TOL/TNW stood at similar level at 1.09x as on March 31, 2024 (PY: 1.15x). With no major debt funded capex plans in place, CARE Ratings expects the company would continue to maintain overall gearing of less than unity.

**Diversified product portfolio**

Venkraft manufactures different categories of coated duplex board papers (coated duplex board with grey back, and white coated duplex board among others), which are used extensively in printing and packaging industry (for packaging purposes in the fast-

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

moving consumer goods (FMCG) industry, pharmacy industry, automobile spare-part industry, and readymade garments industry among others). Therefore, the company's presence over a wide range of duplex boards helps it to cater different kinds of packaging requirements of the clients from different industries. The company's product profile includes kraft paper which finds use in paper grocery bags, and envelopes, among others. The company has a client base of over 500 and sells its finished product to the end customers. With no single customer contributing to significant portion of sales, the single-customer concentration risk is largely mitigated.

**Experienced promoters with long track record of the company's operations**
Venkraft was promoted by the founder directors of the JR group, late M Ramamurthy and Jaya Ramamurthy. The company's promoter directors have experience of over two decades in the paper industry. The group started its business operations in 1990s in packaging through the establishment of JR Packages (P) Limited, later diversifying in retailing, steel trading, printing and reality businesses. In 2004, the group incorporated Venkraft as a part of backward integration of the group's packaging business through manufacturing kraft paper and duplex boards.

## Key weaknesses

**Working capital intensive operations**
The company's operations are working capital intensive reflected by 85 days of working capital cycle (PY: 61 days). Although the company gives credit period of ~60-90 days to its customers, it only gives the credit to its existing customers and based on certain conditions are to be satisfied before extension of the credit. The elongated working capital cycle necessitates higher reliance on bank finance to meet the working capital requirement which is reflected in high working capital utilisation. The company's working capital limit comprises cash credit limit of ₹55 crore and the average working capital limits have been nearly fully utilised in the last 12 months. Though there has been adequate internal cash accrual generation, it has been largely utilised for continuous capex undertaken by the company. With the expected increase of 50% of its existing installed capacity, the company's ability to tie up additional WC limits would be critical to ramp-up the operations.

**Vulnerability of margins to fluctuation in raw material prices and foreign exchange rates**
The margins in the paper industry being raw material intensive are highly susceptible to changes in prices of input materials. Thus, the volatility in wastepaper prices poses a threat to the company's operating margins, as the major raw material is wastepaper. Being a commodity product, wastepaper prices are volatile, with raw material cost constituting 56% of the total cost of sales for FY24 (PY: 64%), thus exposing the company to the volatility in prices of raw materials which has a bearing on its profitability margins. Venkraft procures its wastepaper from domestic and from international markets, which exposes profitability to foreign currency fluctuations risk as the company imports ~15-20% of its raw material requirements.

## **Liquidity**: Adequate

The company's liquidity position remains adequate marked by moderate operating cashflows against scheduled repayment obligations over medium term. Despite increase in scale of operations, the company has been managing operations with similar CC limits translating to near full WC utilisation. The company had cash and bank balance of ₹0.43 crore as on December 31, 2024.

## 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 and jute products | Paper and paper products |

Venkraft was incorporated in February 2004 by the JR group based out of Hosur, Tamil Nadu. Venkraft operates from its manufacturing facilities at Hosur, Tamil Nadu, and manufactures kraft paper (43,800 metric tonne per annum [MTPA]) and duplex boards (73,000 MTPA).

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | September 30, 2024 (UA) |
|---|---|---|---|
| Total operating income | 438.74 | 345.78 | 185.9 |
| PBILDT | 31.78 | 20.60 | 11.2 |
| PAT | 15.77 | 6.64 | 3.5 |
| Overall gearing (times) | 0.91 | 0.84 | NA |
| Interest coverage (times) | 4.74 | 3.00 | 3.11 |

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

**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 | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | - | 65.40 | CARE BBB; Stable |
| Fund-based - LT-Term Loan | - | - | - | February 2030 | 21.50 | CARE BBB; Stable |
| Non-fund-based - ST-Credit Exposure Limit | - | - | - | - | 1.09 | CARE A3 |
| Non-fund-based - ST-ILC/FLC | - | - | - | - | 3.00 | 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 | 21.50 | CARE BBB; Stable | - | 1)CARE BBB; Stable (09-Feb-24) | 1)CARE BBB; Stable (02-Mar-23) | 1)CARE BBB-; Stable (29-Dec-21) |
| 2 | Fund-based - LT-Cash Credit | LT | 65.40 | CARE BBB; Stable | - | 1)CARE BBB; Stable (09-Feb-24) | 1)CARE BBB; Stable (02-Mar-23) | 1)CARE BBB-; Stable (29-Dec-21) |
| 3 | Non-fund-based - ST-ILC/FLC | ST | 3.00 | CARE A3 | - | 1)CARE A3 (09-Feb-24) | 1)CARE A3 (02-Mar-23) | 1)CARE A3 (29-Dec-21) |
| 4 | Non-fund-based - ST-Credit Exposure Limit | ST | 1.09 | CARE A3 | - | 1)CARE A3 (09-Feb-24) | 1)CARE A3 (02-Mar-23) | 1)CARE A3 (29-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 | Fund-based - LT-Cash Credit | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Non-fund-based - ST-Credit Exposure Limit | Simple |
| 4 | Non-fund-based - ST-ILC/FLC | 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.

## Contact us

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**About us:**

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