Pakka Limited

April 29, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	622.43 (Enhanced from 458.43)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	8.51 (Reduced from 10.51)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Pakka Limited considers the satisfactory progress of the ongoing large capex of ₹676.26 crore (funded through a mix of debt of ₹450.00 crore and equity of ₹226.26 crore), which is expected to be completed within scheduled commercial operation date (SCOD) without cost overrun. Ratings continue to derive comfort from strong operational performance in FY24 (refers to April 01 to March 31) and 9MFY25 (refers to April 01 to December 31) marked by healthy profitability margins owing to cost-effective production set-up with integrated operations and steady cash accruals. Ratings 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.

However, ratings continue to remain constrained due to large size capex for capacity augmentation and thus exposes the company to complete the project in a timely manner within the budgeted cost and successful commissioning after obtaining key approvals, which will be crucial for the company's future growth prospects. Rating strengths are partially offset by profitability margins vulnerable 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 ₹600.00 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin 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 a 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, and long-standing relationship with reputed clients.

Detailed description of key rating drivers:

Key strengths

Moderate scale of operations despite healthy profitability margins

In FY24, the company had witnessed the slight moderation in total operating income (TOI) by ~2% to ₹408.24 crore due to reduction in net sales realisations (NSR). In 9MFY25, TOI is at similar level of ₹313.88 crore in comparison to ₹310.16 crore in 9MFY24. Profitability margins of the company remain healthy as evidenced by PBILDT margin of 22.82% in FY24 and 23.71% in 9MFY25. The improvement in PBILDT margin is primarily driven by cost-effective production setup and integrated operations and company's shift towards direct-to-consumer (D2C) sales, which offer better margins.

Cost-effective production set-up with integrated operations

The company has a cost-effective production set-up as characterised by captive power plant of 8.8 MW (Mega-watt) and a 145 metric tonne per day (MTPD) soda recovery plant. The paper packaging industry is capital and energy intensive in nature. Power

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

cost constituted ~17% of TOI in FY24 (PY: ~16%). To source its power requirements, the company has setup a captive power plant (rice-husk based), which takes care of the company's major power requirement, resulting in saving a major part of its power cost.

Locational advantages in form of easy raw material availability

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

Comfortable financial risk profile

The company's capital structure remains comfortable, as marked by the healthy net worth base of ₹264.23 crore as on March 31, 2024, against debt of ₹182.06 crore. The company's financial risk profile remains comfortable as marked by overall gearing of 0.69x as on March 31, 2024 (PY: 0.50x). This moderation is primarily due to new term loans of ₹125.00 crore (disbursed amount of ₹100.00 crore) availed for the partly debt-funded capex in Ayodhya, Uttar Pradesh. Consequently, total debt to gross cash accruals (TD/GCA) has moderated to 2.86x in FY24 (PY: 1.47x). However, improvement in PBILDT margin led to an improvement in debt coverage indicators as marked by interest coverage of 10.39x in FY24 (PY: 8.36x) and 9.75x in 9MFY25.

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 KK Jhunjhunwala. The company is currently led by Chairman, Pradeep Vasant Dhobale, who brings over 30 years of industry expertise. Prior to joining Pakka Limited, he held a leadership position in the paper division of ITC. Jagdeep Hira, a graduate by qualification with over 20 years of industry experience, serves as the Managing Director, overseeing the overall operations of the company.

Long track record of operations and established relationship with customers

The company has a long-standing presence in the paper packaging 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 multinational companies in industries, including tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals. Utilising an established network of dealers throughout India, the 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 ₹676.26 crore (~2.56x of tangible net worth [TNW] as on March 31, 2024) spread over FY24-FY26 (refers to April 01, 2023 to March 31, 2026) pertaining to manufacturing grease proof paper for flexible packaging with a total capacity of 29,700 metric tonne per annum (MTPA) for distribution within the domestic market. Presently, majority greaseproof paper requirement is met through imports. The capex is proposed to be funded by debt of ₹450.00 crore (~67%), and equity of ₹226.26 crore (~33%). Term loans of ₹100.00 crore have been availed and equity of ₹173.43 crore infused in form of new issue, share warrants, and ESOP (share warrants are partly paid and amount of ₹73.44 crore yet to be received reaching total equity infusion to ₹246.87 crore and replacing internal accruals). Of the total project cost, ~32.5% has already been incurred; funded through debt and equity infusion as on March 31, 2025. 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 and volatile raw material price

The paper packaging industry is highly competitive in nature with stiff competition from large number of organised and unorganised 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 raw material price volatility. Nevertheless, the company benefits from long-term contracts with these suppliers, which enhances its supply chain efficiency.

Stringent pollution control norms

The paper packaging industry is recognised 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 volume 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 company has ensured compliance with CPCB regulations and norms governing environmental standards.

Industry prospects

The paper packaging industry experienced a downtrend in FY24, driven by declining realisations 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 GCA to the tune of ₹57.08 crore in FY25 against scheduled repayment of ₹12.01 crore. The company has healthy free cash and bank balance of ₹53.54 crore as on March 31, 2024 (PY: ₹0.77 crore) and healthy operational cash flow of ₹34.69 crore as on March 31, 2024 and strong current ratio of 1.98x as on March 31, 2024 (PY: 1.24x). Average utilisation of working capital limits remains ~49.7% for the trailing nine months ending on February 2025.

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	415.85	408.24	313.88
PBILDT	93.03	93.17	74.43
PAT	51.46	48.67	44.13
Overall gearing (times)	0.50	0.69	NA
Interest coverage (times)	8.36	10.39	9.75

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

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

India Ratings has continued to place ratings assigned to bank facilities of Pakka Limited in the 'issuer not -cooperating' category vide press release dated July 14, 2024, considering 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	500.00	CARE BBB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	122.43	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	8.51	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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	500.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jan-25)	1)CARE BBB (RWD) (07-Mar-24) 2)CARE BBB; Stable (06-Apr-23)	1)CARE BBB; Stable (16-Feb-23)
2	Fund-based - LT-Working Capital Limits	LT	122.43	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jan-25)	1)CARE BBB (RWD) (07-Mar-24)	1)CARE BBB; Stable (16-Feb-23)

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	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
							2)CARE BBB; Stable (06-Apr-23)	
3	Non-fund-based - ST-BG/LC	ST	8.51	CARE A3+	-	1)CARE A3+ (06-Jan-25)	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 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:

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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