Genus Paper & Boards Limited

October 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	243.08 (Enhanced from 56.80)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	71.70 (Enhanced from 35.00)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**314.78 (Rs. Three Hundred Fourteen Crore and Seventy-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Genus Paper and Boards Limited (GPBL) continues to take into consideration GPBL's established promoter group with diverse business interests, company's long track record of operations in the kraft paper industry, established dealer network and a diversified customer base. The ratings also factor in improvement in scale of operations during FY21 (refers to the period from April 01 to March 31), comfortable capital structure of the company marked by low overall gearing and healthy debt coverage metrics. The ratings are however constrained working capital-intensive nature of operations, vulnerability of profitability margins to the fluctuation in raw material prices as well as foreign exchange rates, exposure to group entities with advances and investments into unrelated businesses and intense competition in paper industry. The ratings also take cognizance of recently concluded debt-funded acquisition and proposed large size capex for capacity augmentation which exposes the company to timely implementation and stabilization risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations with ROCE above 12% on a sustained basis.
- Increase in PBILDT/MT above Rs.4,500/MT on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in scale of operations with the PBILDT margin below 6% on a sustained basis.
- Any delay in implementation of the project beyond commercial operations date of April 01, 2022 with lower than envisaged gross cash accruals and cash flow from operations below Rs.40.00 crore on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations: GPBL is promoted by Mr. Ishwar Chand Agarwal, who has a rich experience of over three decades in the industry. The day to day operations are looked after by his son, Mr. Kailash Chandra Agarwal, Managing Director, having an experience of over 26 years in the business of power infrastructure, electronics, steel and paper products. GPBL has a long track record of operations of more than 24 years over which management has developed a healthy relationship with customers and suppliers. GPBL is a paper manufacturer of various grades of Kraft paper (waste paper based).

Established dealer network along with diversified customer base: GPBL's products are sold through a network of around 30-35 dealers located in different states of India including Uttar Pradesh, Uttarakhand, Rajasthan, Bihar, etc. The management has established strong relationships with their customers which are reflected in the form of repeat sales to them. Further, the revenue profile is diversified with top 5 customers contributing ~30% (PY: ~40%) of the total sales in FY21.

Improving operational performance: The total operating income of the company grew by 12.45% to Rs.285.86 crore in FY21 (PY: Rs.254.21 crore) driven by improvement in realization price and steady demand. However, the PBILDT margin of the company moderated to 9.08% (PY: 10.80%) due to increase in cost of raw material i.e. waste paper as a percentage of total cost of sales from 70.15% in FY20 to 72.86% in FY21. Consequently, the PAT margin of the company declined from 3.51% in FY20 to 2.69% in FY21. For the period Q1FY22 (refers to the period from April 01 to June 30), the total operating income at consolidated level nearly tripled to Rs.91.45 crore (PY: Rs.31.35 crore) due to various reasons including substantially lower

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

sales in Q1FY21 on account of nation-wide lockdown and further improvement in sales realization price. The PBILDT margin at consolidated level stood at 10.55% during Q1FY22 vis-à-vis operating loss of Rs.1.11 crore during Q1FY21 due to under-absorption of fixed overheads such as employee salaries and wages due to lower scale of operations during Q1FY21. Consequently, the PBILDT/MT increased from Rs.2,607 in FY21 to Rs.3,814 in Q1FY22. The PAT margin at consolidated level stood at 3.28% during Q1FY22 against net loss of Rs. 5.49 crore during Q1FY21.

Comfortable financial risk profile: The overall gearing at consolidated level remained comfortable at 0.19x (PY: 0.18x) as on March 31, 2021. The debt coverage indictors also remained comfortable during FY21 as reflected by the PBILDT interest coverage and total debt/GCA of 6.40x (PY: 4.95x) and 3.51x (PY: 3.38x). The ROCE (return on capital employed) and RONW (return on net worth) at consolidated level remained low during FY21 at 3.11% and 1.95% respectively (PY: 2.32% and 1.34% respectively). These ratios remain low due to exposure in the group and other companies in the form of investments and loans and advances which stood at Rs. 105.50 crores as on March 31, 2021 (PY: Rs.125.98 crore).

Key Rating Weaknesses

Sizeable debt-funded acquisition and capex: GPBL is projected to incur total acquisition and capex cost of Rs.200.00 crore. This includes Rs.82.10 crore towards acquisition of NS Papers Limited (an existing paper manufacturing unit in Muzaffarnagar with an installed capacity of 66,000 tonne per annum of kraft paper and 74,250 tonne per annum of duplex paper) through IBC (Insolvency and bankruptcy code) process, Rs.87.90 crore towards capacity expansion from 1,40,000 tonne per annum currently to 2,84,000 tonne per annum of kraft paper and 1,00,000 tonne per annum of duplex paper, and the remaining Rs.30.00 crore as pre-operative expenses, contingencies, and working capital margin. The full payment for acquisition of NS Papers Limited was completed by July 23, 2021. The capex shall be funded by term loan of Rs.140.00 crore, preference share capital infusion (non-convertible and redeemable (6% dividend rate) with a tenor of 20 years) to the tune of Rs.15.00 crore, Rs.35.00 crore through recovery of loans and advances, and the remaining Rs.10.00 crore through internal accruals. Till October 8, 2021, out of the projected Rs.200.00 crore capex, GPBL had incurred capex of Rs.139.00 crore. Further, GPBL has availed moratorium on term loan repayments with respect to the capex with the company scheduled to repay from December, 2022 onwards which will provide adequate time for stabilization of operations. Timely completion of the capex without any significant cost overrun and generating healthy volume of sales of both kraft and duplex paper would be a key monitorable.

Working capital intensive nature of operations: The working capital cycle at consolidated level stood at 93 days (PY: 94 days) for FY21. The disruption caused by Covid-19 led to significant raw material build-up as on balance sheet date up to 79 days in FY21 (PY: 61 days) The creditor period increased from 41 days in FY20 to 61 days in FY21. However, the average working capital utilization for 12 months trailing ended August, 2021 stood moderate at 52.36%.

Exposure to raw material price volatility and foreign exchange risk: The major raw material for GPBL's product is waste paper. As waste paper is a commodity, constituting 72.86% of the total cost of sales for FY21 (PY: 70.15%), its price have remained volatile, thus exposing GPBL to the volatility in the prices of raw materials which has a bearing on its profitability margins. GPBL sources its raw material from domestic and foreign suppliers wherein ~49% of the raw material is imported. GPBL's raw material cost is exposed to foreign exchange risk. The company does not have any formal foreign currency hedging strategy in place and it may impact the company's profitability margins.

Stringent pollution control norms: Paper industry is one of the most polluting industries, as identified and categorized by Central Pollution control Board (CPCB) as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting number of issues in relation to wastewater treatment, discharge and sludge disposal. GPBL has an adequate Effluent treatment Plant (ETP) in place with a capacity to treat two times the quantity of waste water produced by the company.

Exposure to the group companies and into unrelated businesses: GPBL invested regularly in the form of loans and advances and investments in the group companies and other third parties. The total exposure (i.e. investments and loans advanced) has reduced to Rs.105.50 crore (29% of the net-worth) as on March 31, 2021 (PY: Rs. 125.98 crores). As on March 31, 2021, the investments stood at Rs. 83.17 crore (PY: Rs.88.84 crore) in the form of equity instruments, debentures and preference shares. Apart from this, GPBL had also extended loans and advances worth Rs.22.33 crore as on March 31, 2021 (PY: Rs.37.14 crore). Going forward, movement in the group exposure shall remain a key monitorable.

Highly fragmented and competitive industry: The Kraft paper industry is highly fragmented in nature with stiff competition from large number of organized as well as unorganized players (small units account for ~60% of the industry size). Given the fact that the entry barriers to this industry are low, the players in this industry do not have pricing power and are exposed to competition induced pressures on profitability.

Prospects: GPBL's prospects are linked to packaging segment which has witnessed better demand compared to other segments during the COVID-19 induced lockdown period and thereafter in FY21. Packaging segment is expected to grow in FY22 backed by an increase in economic activities during the year and increased demand from end user industries like food, pharmaceuticals and FMCG industry. The paper & paper products industry is also likely to see further price increases during FY22 on account of returning demand and higher input prices.

Liquidity: Adequate: The liquidity position at consolidated level is adequate as reflected by average utilization of working capital borrowings of GPBL which stood at 52.36% for the trailing 12 months ended August, 2021. Further, at consolidated level GPBL is scheduled to repay Rs.8.29 crore in FY22 against projected gross cash accruals to the tune of Rs.36.06 crore during FY22. GPBL had free cash and bank balance to the tune of Rs.13.10 crore as on March 31, 2021. GPBL is projected to incur a capex of Rs.200.00 crore (pertaining to acquisition and further capacity expansion) which shall be funded by term loan (70%) and promoter contribution (30%).

Analytical approach: Consolidated.
Genus Paper and Coke Limited (GPCL) is a wholly owned subsidiary of Genus Paper and Boards Limited. Due to GPBL's control over the management of GPCL and financial support from GPBL to GPCL in the form of corporate guarantee consolidated approach has been considered.
Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry

About the Company
Genus Paper Products Limited (GPPL) was incorporated in 1996. Pursuant to the Scheme of Arrangement which provided for the amalgamation of 'Genus Paper Products Limited (GPPL, transferor company) into 'Genus Power Infrastructures Limited' (is in the business of manufacturing electric meters and executing turnkey projects in power transmission and distribution business) and demerger of 'Non Power Infrastructure Undertaking/Business of GPIL into Genus Paper & Boards Limited (GPBL, the resulting company) w.e.f. April 01, 2011, the entire business of GPPL has been transferred to GPBL. In addition, the investment and advances appearing in books of GPIL were also transferred to GPBL. GPBL is promoted by Mr. Ishwar Chand Agarwal and Mr. Kailash Chandra Agarwal. GPBL is primarily engaged in manufacturing of kraft paper. The manufacturing facility of GPBL is located in Moradabad, Uttar Pradesh with installed capacity of 140,000 MTPA for kraft paper as on June 30, 2021. Also, the company has its 12 MW co-generation captive power plant. During FY21, the kraft paper segment contributed around 99.91% (PY: 98.42%) of the total operating income. During FY21, GPBL, has incorporated a wholly owned subsidiary named Genus Paper and coke Limited (GPCL) (formerly known as Kailash Paper and Coke Limited) on July 23, 2020. GPCL is engaged in manufacturing of met coke with an installed capacity of 96,000 M.T.P.A. at its plant located in Chopadava, Bhachau Gujarat (taken over from Yajur Commodities Limited).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)*
Total operating income	254.21	285.86
PBILDT	27.45	25.95
PAT	8.91	7.69
Overall gearing (times)	0.18	0.19
Interest coverage (times)	4.95	6.40

*A: Audited, *: Consolidated*

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September, 2030	150.28	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	92.80	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	71.70	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	150.28	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Dec-20)	1)CARE BBB+; Stable (24-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)
2	Fund-based - LT-Cash Credit	LT	92.80	CARE BBB+; Stable	-	1)CARE BBB+; Stable (23-Dec-20)	1)CARE BBB+; Stable (24-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)
3	Non-fund-based - ST-BG/LC	ST	71.70	CARE A2	-	1)CARE A2 (23-Dec-20)	1)CARE A2 (24-Dec-19)	1)CARE A2 (27-Nov-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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