Genus Paper & Boards Limited

November 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	293.10	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	126.54	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**419.64 (₹ Four Hundred Nineteen Crore and Sixty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in outlook to the ratings assigned to the bank facilities of Genus Paper and Boards Limited (GPBL) takes into consideration deterioration in operating performance of paper segment in Q2FY23 (refers to the period from July 01 to September 30) resulting in operating loss in Q2FY23 and likely underachievement on a full year basis in the current year. The ratings continue to favourably factor in improvement in scale of operations during FY22 (refers to the period from April 01 to March 31), comfortable capital structure marked by low overall gearing and healthy debt coverage metrics. The ratings further derive strength from GPBL's established promoter group with diverse business interests, company's long track record of operations in the kraft paper industry, established dealer network, timely completion of large size capex for capacity augmentation and a diversified customer base. The ratings are however constrained by 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.

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.
- Deterioration debt coverage metrics with total debt/PBILDT above 4.00x on a sustained basis.

Outlook: Negative

The revision in rating outlook from stable to negative is on account of expected weakening of operational performance in paper segment on the back of reduction in realization price of kraft paper due to reduction in waste paper (key raw material) prices. The outlook maybe revised to stable on the back of improvement in realization price of kraft paper with increase in scale of operations of both paper as well as coke segment coupled with improved profitability.

Detailed description of the key rating drivers

Key rating strengths

Improving operational performance: The total operating income at consolidated level more than doubled to Rs.582.35 crore in FY22 (PY: Rs.285.86 crore) on account of various reasons including ~54% growth in total operating income of GPBL due to improvement in realization price and steady demand of kraft paper and total operating income of Rs.142.46 crore reported by Genus Paper and Coke Limited (GPCL) in FY22 (PY: Nil, as commercial production of GPCL began on May 01, 2021). The PBILDT margin at consolidated level moderated slightly to 8.85% in FY22 (PY: 9.08%). However, despite marginal decline in the PBILDT margin, the PAT margin at consolidated level improved substantially to 4.43% in FY22 (PY: 2.69%) due to decrease in interest and depreciation expense as a percentage of total operating income in FY22 on account of increase in scale of operations. During H1FY23 (refers to the period from April 01 to September 30), the total operating income grew by ~51% to Rs. 356.67 crore (PY: Rs.236.80 crore) primarily due to subdued performance during H1FY22 (refers to the period

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

from April 01 to September 30) due to second wave of covid-19. However, the PBILDT margin at consolidated level declined to 3.61% during H1FY23 (PY: 6.94%) due to increase in power and fuel and raw material cost. Further, at consolidated level net loss of Rs.6.65 crore was reported in H1FY23 (PY: PAT margin of 1.65%) due to decline in the PBILDT margin.

Comfortable financial risk profile: The overall gearing at consolidated level although comfortable deteriorated to 0.52x as on March 31, 2022 (PY: 0.19x) due to debt taken to fund capex (details mentioned below). The debt coverage indicators stood comfortable during FY22 as reflected by PBILDT interest coverage and total debt to GCA of 6.14x (PY: 6.40x) and 6.21x (PY: 3.51x) respectively. Going forward, the gearing is expected to deteriorate further on account of additional debt to be availed to fund capex.

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 27 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 and duplex 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 ~39% of the total sales in FY22 (PY: ~30%).

Timely completion of capex: GPBL has completed capex of Rs.225.00 crore in FY22. This includes ~Rs.118.00 crore towards acquisition of NS Papers Limited (an existing paper manufacturing unit in Muzaffarnagar with an installed capacity of 66,000 MTPA (Metric tonne per annum) of kraft paper and 74,250 MTPA of duplex paper), ~Rs.82.00 crore for capacity expansion of Muzaffarnagar Unit (kraft paper capacity increased from 66,000 MTPA to 1,32,000 MTPA and duplex paper capacity increased from 74,250 MTPA to 1,00,000 MTPA), ~Rs.20.00 crore towards capacity expansion of Moradabad unit from 1,40,000 MTPA to 1,52,000 MTPA, and remaining for regular maintenance capex.
The operations of duplex paper unit in Muzaffarnagar began on April 01, 2022, with kraft paper unit operations to begin in 2 phases (each phase comprising of 66,000 MTPA capacity each). Phase-1 began on June 27, 2022 with phase-2 expected to be operational from October, 2022 onwards. Under Phase-2 the company plans to manufacture kraft paper with a higher burst factor as compared with kraft paper manufactured under phase-1 with a higher sales realization price.
The aforementioned capex was funded by term loan of Rs.140.00 crore, preference share capital infusion from promoters to the tune of Rs.15.00 crore (non-convertible and redeemable with a tenor of 20 years), Rs.29.00 crore through liquidation of loans and advances, and remaining Rs.6.00 crore from internal accruals.

Key rating weaknesses

Exposure to raw material price volatility and foreign exchange risk: The major raw material for GPBL's product is waste paper, constituting ~78% of the total cost of sales for FY22 (PY: ~73%) and its price remains volatile, thus exposing GPBL to the volatility in the prices of raw materials which has a bearing on its profitability margins. Due to substantial rise in waste paper prices during FY22 and Q1FY23, GPBL reported subdued PBILDT margin in the range of ~5%. The paper & paper products industry is also likely to see further price increases during FY23 on account of returning demand and higher input prices. 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.76.65 crore (~16% of the net-worth) as on March 31, 2022 (PY: Rs. 105.50 crore). As on March

31, 2022, the investments stood at Rs.76.59 crore (PY: Rs.83.17 crore) in the form of equity instruments, debentures and preference shares. Apart from this, GPBL had also extended loans and advances worth Rs.0.06 crore as on March 31, 2022 (PY: Rs.22.33 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 FY22. Packaging segment is expected to grow in FY23 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 FY23 on account of returning demand and higher input prices.

Liquidity: Adequate – The liquidity position at consolidated level is adequate as reflected by scheduled debt repayments of Rs.11.61 crore in FY23 against projected gross cash accruals of Rs.21.04 crore in FY23. The average utilization of working capital borrowings of GPBL and GPCL stood 73.87% and 64.11% respectively for the trailing 12 months ended October, 2022. At consolidated level, there is projected capex of Rs.21.00 crore in FY23, pertaining to regular maintenance and project related to improvement in the efficiency of existing machinery at Muzaffarnagar plant, out of which Rs.20.00 crore shall be funded by term loan and remaining from internal accruals.

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 to the bank facilities, 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 (GPIL) 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. GPBL is promoted by Mr. Ishwar Chand Agarwal and Mr. Kailash Chandra Agarwal. GPBL is primarily engaged in manufacturing of kraft paper and duplex paper. The manufacturing facilities of GPBL are located in Moradabad and Muzaffarnagar with installed capacity of 2,84,000 MTPA (Metric tonne per annum) for kraft paper and 1,00,000 MTPA as on September 30, 2022. Also, the company has its 12 MW co-generation captive power plant. 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 MTPA at its plant located in Chopadava, Bhachau Gujarat.

Brief Financials-Consolidated (₹ crore)	FY21(A)	FY22 (A)	H1FY23 (P)
Total operating income	285.86	582.35	356.67
PBILDT	25.95	51.54	12.86
PAT	7.69	25.79	-6.65
Overall gearing (times)	0.19	0.52	0.67
Interest coverage (times)	6.40	6.14	2.40

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	111.71	CARE BBB+; Negative
Fund-based - LT-Term Loan		-	-	June 30, 2030	181.39	CARE BBB+; Negative
Non-fund-based - ST-BG/LC		-	-	-	126.54	CARE A2

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	181.39	CARE BBB+; Negative	1)CARE BBB+; Stable (26-Oct-22)	1)CARE BBB+; Stable (22-Oct-21)	1)CARE BBB+; Stable (23-Dec-20)	1)CARE BBB+; Stable (24-Dec-19)
2	Fund-based - LT-Cash Credit	LT	111.71	CARE BBB+; Negative	1)CARE BBB+; Stable (26-Oct-22)	1)CARE BBB+; Stable (22-Oct-21)	1)CARE BBB+; Stable (23-Dec-20)	1)CARE BBB+; Stable (24-Dec-19)
3	Non-fund-based - ST-BG/LC	ST	126.54	CARE A2	1)CARE A2 (26-Oct-22)	1)CARE A2 (22-Oct-21)	1)CARE A2 (23-Dec-20)	1)CARE A2 (24-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- NA

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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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