Genus Paper & Boards Limited

December 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	52.63 (reduced from Rs.153.45 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	45.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	97.63 (Rs. Ninety Seven crore and sixty three lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Genus Paper & Board Limited (GPBL) continues to derive strength from GPBL's established promoter group, the company's long track record of operations in the kraft paper industry, established dealer network and a diversified customer base. The ratings also take into consideration the comfortable capital structure and debt coverage indicators. The ratings are, however, tempered due to moderation in scale of operations and profitability with termination of lease agreement for Kashipur plant in December 2018working capital intensive nature of operations, vulnerability of its profitability margins to the fluctuations in raw material prices as well as foreign exchange rates, exposure to group entities and into unrelated businesses, intense competition in paper industry.

<u>Rating Sensitivities</u>

Positive Factors:

- Improvement in profitability margins resulting in improvement in return of capital employed beyond 11%.
- Decline in exposure in group companies and other parties to nil

Negative factors:

- Increase in Overall gearing beyond 0.75x
- Increase in exposure in the form of investment or loans advanced to group companies or other parties.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record of operations

GPBL is controlled 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 25 years in the business of power infrastructure, electronics, steel and paper products etc. GPBL has a long track record of operations of more than 22 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) and the range is between 100 GSM (Gram per Square Meter) and 400 GSM having a Burst Factor ranging from 18 to 40.

Established dealer network along with diversified customer base

GPBL's products are sold through a network of around 15 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 33% of the revenue in FY19.

Moderation in financial risk profile albeit confortable solvency and debt coverage indicators

In FY19, GPBL witnessed increase of 27% in sales from Kraft paper to Rs.423.85 crore i.e. 5% growth in the sales of kraft paper manufactured at Moradabad plant (contributing 77% of total sales in Fy19) to Rs.332 crore in FY19 and growth in sales from Kashipur plant (which was operational for 8 months in FY19 compared to 2.5 months in FY18) at Rs.100 crore. However, with discontinuation of manufacturing at Kashipur plant, there is decline in sales in H1FY20 by 42% to Rs.147 crore. Also, the sales at Moradabad plant was also down by Rs.37 crore primarily due to breakdown of one boiler at Moradabad plant for 10 days and general slackness in demand especially consumer goods and durable segments during H1FY20 and marginal decline in sales realization

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

In FY19, the moderation in the PBILDT margin is on account of high power & fuel cost due to usage of costly coal as the usage of pet coke as a fuel has been banned by the Indian government. Also, the quality produced in the Kashipur plant is of lower grade resulting in lower margins for GPBL. In FY19 with lower profitability, ROCE and RONW declined and remained to be low. Also, these ratios remain low due to exposure in the group and other companies in the form of investments and loans and advances. However, there is an improvement in PBILDT margins in H1FY20 to 11.04% on account of decline in waste paper prices owing to on-going tension between China and US resulting in less demand of waste paper and high generation of the same by US. Interest coverage ratio improved to 6.36 in H1FY20.
Adjusted overall gearing (post deducting exposure in group companies and un-associated businesses from networth) remained comfortable at 0.34x as on March 31, 2019. Interest coverage declined to 3.5x for FY19 and Total debt / GCA increased slightly to 2.79x as on March 31, 2019.

Key Rating Weaknesses

Working capital intensive nature of operations

The working capital cycle of GPBL improved and stood moderate at 46 days for FY19 (PY: 48days). The creditor declined from 61 days in FY18 to 34 days in FY19 and 24 days in H1FY20 on account of increasing import proportion wherein payment is made to suppliers in 30 days. The inventory days increased to 38 days for H1FY20 from 28 days in FY19. The raw material inventory increased from Rs.8 crore as on March 31, 2019 to Rs.24 crore as on September 30, 2019 on account of purchase of waste paper in anticipation of increase in prices going forward. The collection period improved from 72 days to 52 days in FY19 and increased to 63 days in H1FY20. The change in the turnover ratios in FY19 is also on account of Kashipur plant being in operation till November 30, 2018 and net working capital at the end of March 2019 is primarily for the Moradabad plant. The fund based limits utilization remained high at 87.27% for the trailing 12 months period ended September 2019.

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 product in nature its price are volatile and the raw material cost constituted 71.87% of the total cost of sales for FY19 (PY: 73.3%), 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 supplier wherein 64% of the raw material is imported. GPBL's raw material cost is exposed to foreign exchange risk. The company does not have any concrete foreign currency hedging strategy and it may impacts the company's profitability margins.

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 by Rs.13 crore to Rs.134 crore (38% of the networth) as on March 31, 2019 and Rs.131 crore at the end of September 2019. As on March 31, 2019, the investments stood at Rs.95.92 cr (PY:Rs.75.20 cr) in the form of equity instruments, debentures and preference shares. Apart from this, GPBL had also extended loans and advances worth Rs.38.3 crore as on March 31, 2019 (PY: Rs.72.17 cr). The loans and advances are interest-bearing loans (10% to 13% pa). The investments remained constant at Rs.95.92 crore and loans advanced have reduced by Rs.2.68 crore to Rs.35.62 crore as on Sep 30, 3019.

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.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and cash balance of Rs.7.73 Crore as on March 31, 2019. The company has no capex plans for the projected years. Its working capital bank limits on an average are utilized to the extent of 87% over the last 12 months ending Sep 2019. The current ratio stood at 1.31x as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

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. In addition, the investment business of GPIL was also transferred to GPBL. GPBL is primarily engaged in manufacturing of kraft paper. On April 1, 2018, GPBL had manufacturing kraft paper at two locations i.e. Moradabad (owned) and Kashipur (on lease). On 1st December 2018, the company terminated the lease agreement for third party plant at Kashipur with an installed capacity of 60,000MTPA, owned by Vishwanath Paper & Boards Ltd and was being operated by GPBL. Currently, company has manufacturing facility at Moradabad with installed capacity of 1,40,000MTPA. In 8MFY19 (refer to period from April 1 to November 30), the sales from Kashipur Plant was Rs.100crore (i.e. contributing 23% of total operating income in FY19). Further in FY19, the company discontinued production of MS Ingots (contributing 2.6% of total revenue in FY18 and nil in FY19).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	350.36	432.83
PBILDT	40.98	31.64
PAT	14.94	7.83
Overall gearing (times)	0.30	0.21
Interest coverage (times)	6.74	3.50

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2021	17.43	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	35.20	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE BBB- (12-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE BBB- (12-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE A3 (12-Oct-16)
4.	Fund-based - LT-Term Loan	LT	17.43	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Nov-18)	-	-
5.	Fund-based - LT-Cash Credit	LT	35.20	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Nov-18)	-	-
6.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A2	-	1)CARE A2 (27-Nov-18)	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
i) The sanction letter mentions that there is two way inter-changibility to Rs.7.50 crore between Fund based working capital limits and Non fund based limits.	CARE has taken note of this for the analysis of utilization of fund based and non fund based limits.
B. Non financial covenants	
-	-

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

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