Genus Paper and Boards Limited

December 23, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	56.80 (Enhanced from 52.63)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	35.00 (Reduced from 45.00)	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**91.80 (Rs. Ninety-One Crore and Eighty 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, debt coverage indicators and improved profitability margins of the company. The ratings are, however, constrained by working 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 with advances and investments into unrelated businesses and intense competition in paper industry.

<u>Rating Sensitivities</u>

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

- Improvement in profitability margins resulting in improvement in return of capital employed above 12% on a sustained basis.
- Recovery of loans advanced to group entities to improve liquidity and return ratios.

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

- Decrease in scale of operations due to low capacity utilization below 65% on a sustained basis
- Increase in exposure in the form of investment or loans advanced to group companies or other parties.
- Any large capex which may adversely impact the capital structure of the company.

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 25 years in the business of power infrastructure, electronics, steel and paper products. GPBL has a long track record of operations of more than 23 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 40% (PY: 33%) of the total revenue in FY20 (refers to the period from April 1 to March 31).

Decline in revenue albeit improvement in profitability margins: During FY20, the total operating income of the company declined by 42% y-o-y from Rs. 432.83 crores in FY19 to Rs. 254.21 crores in FY20. The decline in sales during FY20 was on account of termination of the lease agreement manufacturing facility located at Kashipur, Uttrakhand and due to shut down of Moradabad plant for a total of 50 days due to planned maintenance of power plant and further, for 10 days in March, 2020 on account of Covid-19 induced lockdown. During FY20, the operating profit of the company improved from 7.31% in FY19 to 10.80% in FY20 on account of decrease in cost of traded goods and cost of material consumed. The PAT margin also improved and stood at 3.51% in FY20 as compared to 1.81% in FY19 on account of relatively lower interest cost of the company. The company reported total gross cash accruals of Rs. 18.80 crores in FY20 (Rs. 20.18 crore in FY19). The company witnessed a decline in sales due to muted demand in Q1FY21 on account of covid-19. However, the company ramped up its operations post unlock which has been supported by firm finished paper prices and steady growth in the volumes during Q2FY21.

Moderate financial risk profile: The company's overall gearing stood at 0.19x as on March 31, 2020 which improved from 0.21x as on March 31, 2019 owing to scheduled repayment of debt obligations and accretion of profits to the net worth. The coverage indicators continued to remain comfortable with interest coverage and total debt to PBILDT of 4.95x and 2.45x as on March 31, 2020 as against 3.50x and 2.38x respectively as on March 31, 2019. The ROCE and RONW of the company remained low during FY20 at 2.32% and 1.34% respectively (PY: 3.27% and 0.43% respectively) due to lower revenue and profits reported during the year.Also, 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. 126 crores as on March 31, 2020 (PY: 134 crores).

Key Rating Weaknesses

Working capital intensive nature of operations: The working capital cycle of GPBL elongated to 94 days (PY: 46 days) for FY20. The disruption caused by Covid-19 led to significant raw material build-up as on balance sheet date up to 61 days in FY20 (PY: 28 days) and slower collection from customers led to higher collection days at 74 days (PY: 52 days). The creditor period increased from 34 days in FY19 to 41 days in FY20. However, the average working capital utilization for 12 months trailing ended September, 2020 stood moderate at 74.25%.

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 70.88% of the total cost of sales for FY20 (PY: 71.85%), 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 68% 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.

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.126 crore (35% of the net-worth) as on March 31, 2020 (PY: Rs. 134 crores). As on March 31, 2020, the investments stood at Rs. 88.84 cr (PY: Rs.95.92 cr) in the form of equity instruments, debentures and preference shares. Apart from this, GPBL had also extended loans and advances worth Rs.37.14 crore as on March 31, 2020 (PY: Rs.38.30 cr). The loans and advances are interest-bearing loans (10% to 13% pa). 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: The costs of Kraft and other writing paper are increasing post the Covid-19 lockdown due to huge shortage of waste paper and high penalty levied on consignments of imported raw material lying at ports. Kraft paper market is projected to grow from USD 15.6 billion in 2019 to USD 18.7 billion by 2025, recording a CAGR of 3.0% during the forecast period. The rise in demand for Kraft paper in various end-use industries, such as food & beverages, building & construction, cosmetics & personal care automotive, and consumer durables, is a key factor that is projected to drive the growth of the Kraft paper market across the globe which augurs well for GPBL.

Liquidity: Adequate: GPBL has adequate liquidity position supported by steady cash accruals of around Rs.18.80 crore during FY20. The company has projected cash accrual of Rs. 19.47 crore during FY21 against which it has a scheduled repayment obligation of Rs.8.49 crore. The company has comfortable current ratio of 1.40x as on March 31, 2020 (PY: 1.31x). The company has not availed any moratorium. The company has no capex planned in FY21. The average working capital utilization for 12 months trailing ended September, 2020 stood moderate at 74.25%. The free cash and bank balance of the company stood at Rs. 2.59 crores as on March 31, 2020.

Analytical approach: Standalone

Applicable Criteria
[CARE's criteria on rating outlook and credit watch]
[CARE's policy on default recognition]
[Liquidity Analysis of Non-Financial Sector]
[CARE's methodology for manufacturing companies]
[CARE's rating methodology on financial ratios – Non-financial sector]
[CARE's Rating Methodology- 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, rated IND A+/ Stable/ IND A1, 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 March 31, 2020. Also, the company has its 12 MW co-generation captive power plant. Further in FY19, the company discontinued the operations of production of mild steel ingots (having capacity of 23,760 TPA). During FY20, the kraft paper contributed around 99.52% (PY: 98%) and other income contributed nearly 0.5% (PY: 2%) to revenue in FY20 from operation of GPBL.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	432.83	254.21
PBILDT	31.64	27.45
PAT	7.83	8.91
Overall gearing (times)	0.21	0.19
Adjusted Overall gearing (times)*	0.34	0.29
Interest coverage (times)	3.50	4.95

A: Audited; * adjusted for investments and loans & advances to group companies and other third parties
Status of non-cooperation with previous CRA: NA

Any other information: N.A

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	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, 2022	11.60	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	45.20	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	35.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (30-Jan-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (30-Jan-18)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (30-Jan-18)
4.	Fund-based - LT-Term Loan	LT	11.60	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)	-
5.	Fund-based - LT-Cash Credit	LT	45.20	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Dec-19)	1)CARE BBB+; Stable (27-Nov-18)	-
6.	Non-fund-based - ST-BG/LC	ST	35.00	CARE A2	-	1)CARE A2 (24-Dec-19)	1)CARE A2 (27-Nov-18)	-

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

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

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-BG/LC	Simple

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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