Kuantum Papers Limited (Revised)

January 08, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating**[1]	**Rating Action**
Long-term Bank Facilities	634.69 (enhanced from Rs. 329.04 crore)	**CARE A-; Negative (A Minus; Outlook: Negative)**	Reaffirmed
Short-term Bank Facilities	94.49 (enhanced from Rs. 71.55 crore)	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**729.18 (Rs. Seven Hundred Twenty Nine Crore and Eighteen lacs only)**		
Long-term/Medium-term Fixed deposits	45.00	**CARE A- (FD); Negative (A Minus (Fixed Deposit); Outlook: Negative)**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Kuantum Papers Limited (KPL) continue to derive strength from the long track record of operations of the company with experienced management team and resourceful promoters, established supplier and distribution network and diversified product profile. The ratings further derive strength from the satisfactory operational and financial performance of the company in FY19 (refers to the period April 01 to March 31) and H1FY20 (Unaudited), characterized by increased income and healthy profitability margins, proximity of manufacturing plant to raw material sources and various cost saving measures implemented by the company.

These rating strengths are, however, partially offset by the exposure to project risk, competitive nature of the industry and vulnerability of profitability margins to volatility in the raw material prices.

<u>Rating Sensitivities</u>

Positive Factors

- Successful commissioning of the commercial operations for the on-going capex within the proposed time and cost estimates and stabilisation of operations post that
- PBILDT margins improving significantly and sustaining at around 28%, post completion of the on-going capex

Negative Factors

- Any significant cost or time overrun in the on-going project
- PBILDT margin falling significantly to below 16% on a sustained basis
- Overall gearing ratio deteriorating significantly beyond 0.75x in the medium term
- Any new capex and funding mix for the same, impacting the credit profile

Outlook: Negative

The outlook continues to be 'Negative' on account of the debt funded capex currently being undertaken by KPL which may lead to moderation in the overall credit risk profile of the company in the medium term. The outlook may be revised back to stable if the company is able to complete the project within the proposed time & cost estimates and is able to deliver financial and operational performance as envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of operations with an experienced management team and resourceful promoters: KPL is engaged in the manufacturing of paper for more than three decades which has aided the company in establishing relationships with customers and getting regular orders from them. Mr Jagesh Khaitan, Chairman, has an overall experience of over five decades and is associated with the company since its inception. Mr Jagesh Khaitan is assisted by a team of professionals who are highly experienced in their respective domains. The promoters of the company have extended continuous financial support over the years to fund the business requirements of the company.

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

Well-established and strong distributor network: KPL has over 100 distributors spread across the country with majority in Delhi, Uttar Pradesh, Madhya Pradesh, Punjab, Haryana, Maharashtra and Rajasthan. KPL also participates in tenders and takes orders from Government agencies like State Textbook Boards and Printing & Stationery Departments, though the same contributed a small proportion of total operating income of the company. Over the years, KPL has established a strong customer base and gets repeat orders from most of its clients.

Various cost saving measures implemented by the company: KPL enjoys healthy profitability margins on the back of integrated and cost effective production set up and easy access to raw material. KPL has a captive power generation plant with a capacity of 16.5 MW where it uses the bio mass fuel (rice husk, forest stock, etc.) and coal. Furthermore, KPL has a chemical recovery plant which has enabled the company to recover caustic soda from black liquor, the effluent generated in the pulp production process.

Comfortable financial risk profile: In FY19, the total operating income of the company increased by ~13% on a year-on-year (y-o-y) basis on the back of higher quantity sold and better sales realization achieved during the period. The PBILDT margins of the company continued to remain comfortable (20.55% in FY19, compared to 21.44% in FY18). However, the same declined on a y-o-y basis on account of higher raw material cost incurred and increased power cost incurred due to higher rice husk & coal prices. The overall solvency position of KPL remained comfortable with overall gearing and total debt to GCA ratios of 0.47x and 3.32x, respectively, as on March 31, 2019 (PY: 0.45x and 3.03x, respectively). The slight deterioration was on account of increased loans availed by the company (for the two modernization & up-gradation projects) and increased working capital borrowings outstanding at the end of the year. The interest coverage ratio stood at a comfortable level of 5.63x in FY19.
In H1FY20 (UA), the scale of operations of the company increased by ~5% on a y-o-y basis, to Rs. 382.42 crore. The increase was mainly on account of increased quantity sold during the period coupled with higher sales realizations achieved. The PBILDT margins stood comfortable at 19.03% during the period. However, the same declined marginally on a y-o-y basis from 19.48% in H1FY19. The interest coverage ratio of the company remained comfortable at 4.47x in H1FY20, though deteriorated from 5.91x in H1FY19, due to higher interest expenses incurred.

Diversified product profile along with healthy plant capacity utilization levels: KPL manufactures a wide range of WPP (Writing and Printing Paper) paper with GSM range of 49-140 grams per square meter. The paper manufactured by the company find its application in the printing of books, note books, calendars, diaries, newspaper supplements, pamphlets, computer stationary, etc. The company has also started manufacturing multi-color high end printing and photocopier paper since FY15. KPL has generated healthy capacity utilization levels in the past due to various de-bottlenecking operations undertaken by the company.

Location advantage leading to easy availability of raw material: KPL majorly utilizes agricultural residue based raw materials (80% of the total raw material requirement). The major raw materials used by KPL include Kana grass, wheat straw and bagasse. The plant is located in the agriculture belt of Punjab, because of which the availability of such raw material is in abundance.

Key Rating Weaknesses
Project risks related to major expansion project: The company was undertaking a project to modernize & upgrade its existing manufacturing facilities at an estimated project cost of Rs.200.57 crore funded through a debt of Rs.144 crore and remaining through the unsecured loans and internal cash accruals. The project has achieved COD (Commercial Operations Date) in December-19 within the time and cost estimates.
The company is also undertaking a new capex for up-gradation and modernization of its existing manufacturing facilities which comprises of expansion in capacities of pulp mill, chemical recovery plant, captive power plant and odour control system. The same will also lead to increase in the installed capacity of the company (from existing 115500 MTPA to 148500 MTPA) post completion of the project by June-2020. The project is being set-up at the existing manufacturing facilities of the company located in Hoshiarpur, Punjab (258 acres of land area) and is expected to bring down the costs, improve profitability and produce high quality paper. The project cost for the new capex is estimated at Rs.444.04 cr. to be funded through bank loans of Rs.333 cr. (fully tied-up) and remaining through internal accrual generated by the company. The company has already incurred a total project cost of Rs.167.57 crore, as on December 03, 2019 funded through term loans of Rs. 78.11 cr. and remaining through internal accruals generated by the company (Rs. 89.46 cr.). Given the significant size of the expansion project, it entails significant implementation and stabilization risks and any time and cost overruns may adversely impact the credit profile of the company.
Though the project is in the same line of business, the ability of the company to complete the proposed capex within the projected time and cost estimates along with any new capex, if any and funding mix for the same, impacting the credit profile, will remain the key rating sensitivities.

Expected moderation in the overall solvency position: KPL's solvency position is expected to moderate over the medium term (compared to the solvency position as on March 31, 2019) owing to disbursement of the debt proposed to fund its expansion project. The project is proposed to be funded through a term debt of Rs. 333 crore and internal accruals of Rs. 111.04 crore. The company has changed the funding-mix for the project. It was earlier proposed to be funded through debt of Rs. 350 cr. (inclusive of term loans of Rs. 260 cr. and debentures of Rs. 90 cr.) and internal accruals of Rs. 94.04 cr. The company had issued debentures amounting to Rs. 30 cr. (out of total Rs.90 cr. tied-up) in December-18 for funding of the project. However, the same were pre-paid by the company in Q1FY20 in view of higher rate of interest charged on the instrument compared to the bank loans. KPL has already been sanctioned the entire debt for the new project and management expects the project to be commissioned by FY21 (June-20). Any time or cost overrun for the project will be critical for the financial risk profile of the company and will be a key rating monitorable going ahead.

Highly competitive industry along with susceptibility of margins to volatility in prices of raw material: The paper industry is fragmented in nature with stiff competition from large number of players. This limits the pricing power of the manufacturers and puts pressure on profitability. KPL majorly uses agro-based raw material which is purchased from the domestic markets. 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 susceptible to any volatility in the raw material prices.

Liquidity: Adequate - The current and quick ratios of the company stood at a moderate level of 1.16x and 0.80x, as on March 31, 2019 (PY: 1.17x and 0.70, respectively). The unencumbered cash & bank balance with the company remained at Rs.41.33 Cr., as on March 31, 2019 (PY: Rs. 14.22 cr.). The working capital utilization has remained comfortable during the 12 months ending November 2019 at ~52%. The operating cycle of the company also remained comfortable at 37 days, as on March 31, 2019 (PY: 43 days). The company has a total debt repayment obligation of Rs. 34.03 cr. in FY20 (excluding pre-payment of Non-Convertible Redeemable Debentures in Q1FY20 amounting to Rs. 30 cr., which was done from the cash and bank balances maintained with the company), which is proposed to be met through the internal accruals generated by the company during the year (GCA of Rs. 111.25 cr. in FY19).

Analytical approach: Standalone.

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
Financial ratios – Non-Financial Sector
CARE's policy on default recognition
CARE's methodology for manufacturing companies
Criteria for Short Term Instruments

About the Company
Kuantum Papers Limited (KPL) was incorporated in 1997 under the name of 'ABC Paper Limited'. The paper operations which started in 1980 under another group Company 'Amrit Banaspati Co. Ltd.' were merged into ABC Paper Limited in 2007. Thereafter, the name of the company was changed to KPL in 2012. The company is promoted by its Chairman, Mr. Jagesh Khaitan. KPL is engaged in the manufacturing of Writing and Printing Paper (WPP) at its manufacturing facility located in Hoshiarpur (Punjab), with an installed capacity of 125,000 metric tonnes per annum (MTPA), as on March 31, 2019. KPL sells its products under various brands like 'K-Gold, Kappa G, Keon, Krest and Kroma'.

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	707.42	801.79
PBILDT	151.69	164.73
PAT	76.50	77.94
Overall gearing (times)	0.45	0.47
Interest coverage (times)	6.98	5.63

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-Cash Credit	-	-	-	55.00	CARE A-; Negative
Non-fund-based - ST-BG/LC	-	-	-	70.00	CARE A2+
Fund-based - LT-Term Loan	-	-	March-2027	579.69	CARE A-; Negative
Non-fund-based - ST-Credit Exposure Limit	-	-	-	24.49	CARE A2+
Fixed Deposit	-	-	-	45.00	CARE A- (FD); Negative

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-Cash Credit	LT	55.00	CARE A-; Negative	-	1)CARE A-; Negative (28-Dec-18) 2)CARE A-; Stable (05-Oct-18) 3)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (30-Mar-18) 2)CARE BBB+; Stable (07-Dec-17)	1)CARE BBB+; Stable (23-Jan-17) 2)CARE BBB (23-Aug-16)
2.	Non-fund-based - ST-BG/LC	ST	70.00	CARE A2+	-	1)CARE A2+ (28-Dec-18) 2)CARE A2+ (05-Oct-18) 3)CARE A2+ (06-Apr-18)	1)CARE A2+ (30-Mar-18) 2)CARE A2 (07-Dec-17)	1)CARE A2 (23-Jan-17) 2)CARE A3+ (23-Aug-16)
3.	Fixed Deposit	LT	45.00	CARE A- (FD); Negative	-	1)CARE A- (FD); Negative (28-Dec-18) 2)CARE A- (FD); Stable (05-Oct-18) 3)CARE A- (FD); Stable (06-Apr-18)	1)CARE A- (FD); Stable (30-Mar-18) 2)CARE BBB+ (FD); Stable (07-Dec-17)	1)CARE BBB+ (FD); Stable (23-Jan-17) 2)CARE BBB (FD) (23-Aug-16)
4.	Fund-based - LT-Term Loan	LT	579.69	CARE A-; Negative	-	1)CARE A-; Negative (28-Dec-18) 2)CARE A-; Stable (05-Oct-18) 3)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (30-Mar-18) 2)CARE BBB+; Stable (07-Dec-17)	1)CARE BBB+; Stable (23-Jan-17) 2)CARE BBB (23-Aug-16)
5.	Non-fund-based - ST-	ST	24.49	CARE A2+	-	1)CARE A2+	-	-

	Credit Exposure Limit				(28-Dec-18) 2)CARE A2+ (05-Oct-18)		

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

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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