Kuantum Papers Limited

October 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	627.89 (reduced from 634.69)	**CARE BBB (Triple B) Under credit watch with negative implications**	**Revised from CARE A-; Negative (A Minus; Outlook: Negative) and rating put under credit watch**
Short-term Bank Facilities	94.49	**CARE A3+ (A Three Plus) Under credit watch with negative implications**	**Revised from CARE A2+ (A Two Plus) and rating put under credit watch**
Short-term Bank Facilities	2.00	**CARE A3+ (A Three Plus) Under credit watch with negative implication**	**Assigned**
Total Facilities	**724.38 (Rs. Seven Hundred Twenty Four Crore and Thirty eight lacs only)**		
Long-term/Medium-term Fixed deposits	45.00	**CARE BBB (FD) [Triple B (Fixed Deposit)] Under credit watch with negative implications**	**Revised from CARE A- (FD); Negative [A Minus (Fixed Deposit); Outlook: Negative] and rating put under credit watch**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and fixed deposits of Kuantum Papers Limited (KPL) takes into account decline in scale of operations and profitability in FY20 (refers to the period April 01 to March 31) coupled with losses reported at the PBILDT and cash level in Q1FY21 (Unaudited). The ratings further remain constrained by the, implementation & stabilization risks associated with the ongoing capex, subdued demand scenario in the short to medium term with an already competitive writing & printing paper industry and vulnerability of profitability margins to volatility in the raw material prices.

The ratings, however, continue to derive strength from the long track record of operations of the company with experienced management team & resourceful promoters, established supplier & distribution network, diversified product profile, proximity of manufacturing plant to raw material sources and various cost saving measures implemented by the company.

The ratings have been placed on 'Credit Watch with Negative Implications' taking cognizance of the company's application for One Time Restructuring (OTR), of almost all its loans, under the Reserve Bank of India's (RBI) guidelines issued on August 06, 2020. While the company had availed moratorium for most of its debt obligations in the March-2020 to August-2020 period and met its repayments till its application for restructuring dated September 14, 2020 to the lenders, subsequent payments have not been met on the due dates as the restructuring process had been initiated with the proposed date of invocation as September 01, 2020. The rating action is in line with CARE's criteria on 'Analytical treatment for one-time restructuring due to Covid-19 related stress' issued on September 29, 2020. The action also reflects the uncertainty on the extent and timing of recovery in the operating and financial performance of the company, which is currently impacted by the Covid-19 led slowdown, especially while the company is also undertaking a significantly large debt funded capex and repayment obligations remain dependent on the OTR approval.

CARE will continue to monitor the developments in this regard and will take a view once the approval & terms of the OTR proposal and its implications on KPL are clear. Further, receipt of approval prior to December 31, 2020 with invocation date as proposed along with the recovery in the financial & operational performance of KPL will be a key rating monitorable.

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

Rating Sensitivities

Positive factors

- Ability to profitably scale up operations to achieve a better than projected financial performance
- Timely approval of the OTR scheme with favorable terms providing medium term relief to the cash flows
- Scale up of operations in the long term with the PBILDT margins improving significantly from the historical levels (to above ~25%) as envisaged post successful & time bound completion of the on-going capex and stabilization of operations

Negative factors

- Significantly more than envisaged decline in income or increase in cash losses
- Any significant cost or further time overrun in the on-going project or any new debt funded capex
- Failure to get approvals for debt restructuring, delay in its implementation or unfavorable terms leading to pressure on cash flows

Detailed description of the key rating drivers

Key Rating Weaknesses

Deteriorated financial performance in FY20 and Q1FY21 (Unaudited): In FY20, the company's total income declined by ~6% on account of lower quantity sold coupled with lower sales realizations. This in turn was owing to the overall slowdown in domestic demand which impacted the paper industry as well. Further, the operations of the company were shut down at the end of March-2020 because of the country wide lockdown implemented by the Government of India in light of Covid-19. The PBILDT and PAT margins declined from 20.55% and 9.72% respectively, in FY19 to 16.90% and 9.53% respectively, in FY20. This was mainly on account of lower sales realizations coupled with increase in most raw materials costs which were not passed on and higher employee expenses incurred by the company.

In Q1FY21 (UA), the total income of the company declined further by ~75% on a year-on-year basis because of the production loss of around a month caused by the continuation of lockdown imposed by the government. Also, the demand and realizations of writing and printing paper remained lower in Q1FY21 as compared to Q1FY20. The company had to incur its fixed nature of expenses despite lower sales during the quarter leading to a loss of Rs.9.57 Cr. at the PBILDT level in Q1FY21 (UA: PY: profit of Rs.41.15 Cr.) Consequently, the company also reported net losses of Rs.16.26 Cr. and cash losses of Rs.17.16 Cr. in Q1FY21 (UA; PY: net profit of Rs.18.37 Cr. and cash profit of Rs.27.85 Cr.).

The capital structure of the company remained comfortable with long-term debt-to-equity and overall gearing ratios of 0.58x and 0.64x respectively, as on March 31, 2020 (PY: 0.42x and 0.47x, respectively). The deterioration (as envisaged at the time of the last review) was mainly on account of increased term loans availed by the company for the on-going capex and higher working capital outstanding at the end of the year. The debt coverage indicators marked by total debt to GCA ratio and interest coverage ratio remained comfortable at 6.50x, as on March 31, 2020 and 4.18x in FY20 respectively, though deteriorated from 3.32x as on March 31, 2020 and 5.63x in FY20 respectively, on account of higher debt outstanding while profitability remained lower during the year.

Risks related to the ongoing capex: KPL is undertaking a capex for up-gradation and modernization of its existing manufacturing facilities comprising of expansion in capacities of pulp mill, chemical recovery plant, captive power plant and odor control system. The same will also lead to increase in the installed capacity of the company from existing 115500 MTPA (metric tonners per annum) to 148500 MTPA. The total estimated project cost of Rs.444.04 crore is proposed to be funded through a debt of Rs.333 crore (debt fully tied-up) and remaining through the internal cash accruals of the company. The company has already incurred a total cost of Rs.353.34 crore, as on August 26, 2020 funded through term loans from banks amounting to Rs.250.99 crore and remaining through internal accruals and cash flows generated. The timeline for execution of the project was earlier extended by three months from June-2020 to September-2020 and has now been further extended to November-2020 on account of Covid-19 and lockdown related issues. Though the project is in the same line of business and there is no cost overrun expected as on date, given the significant size of the expansion project, there are significant risks of implementation and stabilization while any time and cost overruns going forward may also adversely impact the credit profile of the company. *Stabilization of enhanced capacities post completion of the ongoing capex within the projected time and cost estimates, along with any new capex and funding mix for the same, impacting the credit profile, will remain the key rating sensitivities.*

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 amongst a large number of players. This limits the pricing power of manufacturers and puts pressure on their profitability. KPL majorly uses agro-based raw material which is purchased from domestic markets. With respect to these raw materials, there are further limitations to use due to seasonal availability and the resultant high volatility in their prices. Therefore, the operating profitability of the company remains susceptible to any volatility in the raw material prices.The paper industry, especially the writing and printing segment, has witnessed a Covid-19 led slowdown. The pandemic has affected both demand and prices. The stress is expected to continue in the near term since the primary demand drivers of the segment viz. the education institutes and offices are still not operating at normal levels.

Key Rating Strengths

Long track record of operations with an experienced management team and resourceful promoters: KPL has been 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 has been associated with the company since its inception. He is assisted by a team of professionals who are highly experienced in their respective domains. The promoters have extended continuous financial support over the years to fund the business requirements of the company. In FY21, additional unsecured loans of around Rs.5 Cr. have been infused as on October 05, 2020 for various business requirements.

Well-established and strong distributor network: KPL has over 100 distributors spread across the country with the majority in Delhi, Uttar Pradesh, Madhya Pradesh, Punjab, Haryana, Maharashtra and Rajasthan. Over the years, KPL has established a strong customer base and gets repeat orders from most of its clients.

Location advantage leading to easy availability of raw material and various cost saving measures implemented by the company: 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 an agriculture belt viz. Punjab because of which the availability of such raw materials is easy and abundant. KPL enjoys healthy profitability margins on the back of its 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 bio mass (rice husk, forest stock, etc.) and coal as fuel. 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.

Diversified product profile: KPL manufactures a wide range of WPP (Writing and Printing Paper) paper viz. 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. In the past, KPL has maintained healthy capacity utilization levels due to various de-bottlenecking operations undertaken by the company. However, subdued demand and realisations, coupled with the impact of Covid-19 on production, has led to a decline in the capacity utilisation levels during Q1FY21.

Liquidity: Stretched

The company had availed the moratorium, extant RBI guidelines in light of Covid-19, from most of its lenders for its debt obligations due in the March to August-2020 period. In September-2020, the company has applied for OTR under the RBI's guidelines issued on August 06, 2020. The quantum of repayment obligations of the company for FY21 will depend on the approval and terms of the proposed OTR. *Going forward, attaining timely approval for the OTR remains a key rating sensitivity since the cash flow generation projected going forward is scarcely matched with the scheduled repayments.* The capex for FY21 is to be funded mainly through the term loans disbursements (sanctioned for the project), cash flows generated and projected infusion of unsecured loans from the promoters/related parties. The fund infusion from the promoters is also expected to support the due repayment obligations for FY21 (not covered under the moratorium or OTR). The current ratio of the company stood above unity at 1.07x, as on March 31, 2020 (PY: 1.26x) while the quick ratio of the company stood at 0.45x, as on March 31, 2020 (PY: 0.87x). The average working capital utilization has remained at a satisfactory level of ~61% during the twelve months ending August-2020. The operating cycle of the company also remained satisfactory at ~39 days, as on March 31, 2020 (PY: ~37 days).

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
Liquidity analysis of non-financial sector entities
Analytical treatment for one-time restructuring due to Covid-19 related stress

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. There after the name of the company was changed to KPL in 2012. The company is promoted by its Chairman and Managing Director, Mr. Jagesh Khaitan. The company is engaged in the manufacturing of Writing and Printing Paper (WPP) at its manufacturing facility located in Hoshiarpur (Punjab) with an installed capacity of 120,000 metric tonnes per annum (MTPA) as on March 31, 2020. KPL majorly utilizes agricultural residue based raw materials including 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. 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)	FY19 (A)	FY20 (A)
Total income	801.79	753.51
PBILDT	164.73	127.33
PAT	77.94	71.81
Overall gearing (times)	0.47	0.64
Interest coverage (times)	5.63	4.18

**A: Audited*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 BBB (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	70.00	CARE A3+ (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	March-2027	572.89	CARE BBB (Under Credit watch with Negative Implications)
Non-fund-based - ST-Credit Exposure Limit	-	-	-	24.49	CARE A3+ (Under Credit watch with Negative Implications)
Fund-based - ST-Working Capital Demand loan	-	-	-	2.00	CARE A3+ (Under Credit watch with Negative Implications)
Fixed Deposit	-	-	-	45.00	CARE BBB (FD) (Under Credit watch with Negative Implications)

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-Cash Credit	LT	55.00	CARE BBB (Under Credit watch with Negative Implications)	-	1)CARE A-; Negative (08-Jan-20)	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)
2.	Non-fund-based - ST-BG/LC	ST	70.00	CARE A3+ (Under Credit watch with Negative Implications)	-	1)CARE A2+ (08-Jan-20)	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)
3.	Fixed Deposit	LT	45.00	CARE BBB (FD) (Under Credit watch with Negative Implications)	-	1)CARE A- (FD); Negative (08-Jan-20)	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)
4.	Fund-based - LT-Term Loan	LT	572.89	CARE BBB (Under Credit watch with Negative Implications)	-	1)CARE A-; Negative (08-Jan-20)	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)
5.	Non-fund-based - ST-Credit Exposure Limit	ST	24.49	CARE A3+ (Under Credit watch with Negative Implications)	-	1)CARE A2+ (08-Jan-20)	1)CARE A2+ (28-Dec-18) 2)CARE A2+ (05-Oct-18)	-
6.	Fund-based - ST-Working Capital Demand loan	ST	2.00	CARE A3+ (Under Credit watch with Negative Implications)	-	-	-	-

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.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - ST-Working Capital Demand loan	Simple
5.	Non-fund-based - ST-BG/LC	Simple
6.	Non-fund-based - ST-Credit Exposure Limit	Simple

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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