Yash Pakka Limited

January 22, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities-Term Loan	114.74 (enhanced from Rs.97.87 crores)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long term Bank Facilities-Fund Based	64.73	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short term Bank Facilities-Non-Fund Based	25.76	CARE A3 (A Three)	Reaffirmed
Total	**205.23 (Rs. Two hundred and five crores and twenty three lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Yash Pakka Limited continue to derive strength from the company's experienced promoters and its long track record of operations, moderate financial risk profile, established customer relationships with robust selling and distribution network, cost effective production set-up with integrated operations along with the locational advantages.

However, the ratings are offset by the project execution risk associated with capacity enhancements in the tableware segment along with certain other infrastructure improvements pertaining to environmental compliances. Further, the ratings are constrained on account of volatility in the raw material prices and the cyclical nature of the industry.

Rating Sensitivities

Positive Factors:

- If there is sustained improvement in the scale of operations above Rs.350 crores backed by operational performance.
- If there is sustained improvement in capacity utilization of the tableware segment above 60%.

Negative Factors:

- If there is deterioration in the scale of operations below Rs.200 crores and PBILDT margin below 15%.
- If there is time and cost overrun with respect to expansion project currently being undertaken.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoter and Professional Management team

Yash Pakka Limited (YPL) (From September 11, 2019, the name of the company has been changed to Yash Pakka Limited from Yash Papers Limited) was incorporated by late Mr. K.K. Jhunjhunwala in 1983. Mr. Ved Krishna, son of Mr. K. K. Jhunjhunwala, is the executive chairman of the company. He has been associated with the company for the last 15 years and therefore has a long experience in the paper industry. Mr. Ved Krishna has a team of professionals such as Mr. Jagdeep Hira (Managing Director & CEO) who is currently looking after day to day operations of the company.

Long track record of operations and established relationship with customer

YPL has a long track record of operations and has been engaged in the paper industry for over three decades. As a result, YPL has established good relationship with various customers leading to repeat orders. The company caters to various multinational companies in industries like tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals etc.

It sells its products in the domestic market through an established distributor network across India. Export of paper is carried out through merchant exports and agents appointed in various countries, to look after specific regions.

Cost effective production set-up with integrated operations: Captive power generation capabilities and soda recovery plant

YPL has cost-effective production set-up as characterized by captive power plant of 8.5 MW and a 145 TPD soda recovery plant. The paper industry is capital and energy intensive in nature. Power cost constituted 17.56% of total operating income in FY19 (PY: 15.86%). To source its power requirements, the company has a captive power plant of 8.5-MW capacity (rice-husk based) which takes care of 100% power requirement of the company.

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

Moderate Financial Risk Profile
The total operating income of the company has increased to Rs.254.46 crores during FY19 from Rs.204.03 crores during FY18 i.e. an increase of ~25%. The same is on account of an increase in the domestic sales from tableware product segment and the main paper business. The company started the tableware project in FY2017-18 and the revenue from the same has increased from Rs.1.66 crores in FY18 to Rs.16 crores in FY19
The PBIDLT margin of the company has remained stable at 19.47% in FY19 (PY: 19.68), whereas the PAT margins of the company have increased to 8.14% in FY19 (PY: 6.11%) on account of creation of deferred tax.
The overall gearing of the company has improved to 1.27x as on March 31, 2019 as against 1.90x as on March 31, 2018 on account of decline in the total debt of the company along with improvement in the net worth of the company due accretion of profits. Therefore, the Total Debt to GCA of the company has also come down to 4.22x as on March 31, 2019 as against 5.79x as on March 31, 2018. However, the interest coverage ratio of the company has reduced from 3.13x in FY19 as against 2.94x in FY18 on account of increase in the interest expense. This is because that the company took the disbursement during the year FY2017-18 towards the tableware project and the interest has been capitalized during the year with regards to the tableware proposal.
The company reported a total operating income of Rs.133.59 crores during H1FY20 as against Rs.123.82 crores during FY18 i.e. an increase of ~8%. The PBILDT margin and the PAT margin of the company have improved to 23.24% and 10.40% in FY19 respectively (PY: 20.11% and 6.86% respectively).

Locational Advantages in the form of easy availability of raw materials
The main raw material used by the company in its manufacturing process is agro-based raw materials such as bagasse. Bagasse accounted for 66% of the total raw material cost during FY19 (PY: 73%). The plant is located in Uttar Pradesh, which is the sugarcane hub of India, thus ensuring adequate availability of bagasse. The company has been dealing with its top 10 suppliers for over 15 years. The long association with these suppliers provides comfort on the regular supply of raw materials to the company.

Key Rating Weaknesses
Project Execution and off-take risk
The company is planning to undertake a project at their existing plant at Faizabad, Uttar Pradesh for the capacity enhancement in tableware/ moulded products division. The same s being undertaken for installing the small-scale machinery such that the turnaround-around time (TAT) is higher and the production facilities will also enhance, modifications in the paper plant which gives more quality products in addition to the environmental compliance and also modernization of the power facility for efficiency improvements in the power plant.
The total project cost of this capex is Rs.80 crores (to be undertaken in two tranches in FY20 and FY21), which will be funded using a term loan of Rs.56.61 crores and the remaining Rs.23.39 crores using internal accruals.
Given the size of the project compared to the net worth, successful completion of the expansion/modernization projects within envisaged time and cost would remain crucial for the company and remains to be seen. Furthermore, risk associated with project-offtake also remains there given the fact that the existing tableware capacity is still under ramp-up phase. The above expansion has been envisaged in order to meet the market requirements and also to ramp-up the existing facilities.

Price-Fluctuation Risk
The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. YPL uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. Therefore, going forward, the ability of the company to manage its profitability amid volatile raw material prices would be the key rating sensitivity.

Fragmented and competitive industry
The Kraft paper industry is competitive 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 not very high, the players in this industry do not have pricing power and are exposed to competition.

<u>Liquidity : Adequate</u>
The company is having an adequate liquidity characterized by sufficient cushion in cash accruals in the range of Rs.30 crores to Rs.40 crores vis-à-vis the repayment obligations of around Rs.15 crores. The operating cycle of the company improved to 121 days in FY19 (PY: 138 days), however, it continuous to remain on the higher side. The average utilization for fund based limit for trailing 12 months ending December, 2019 stood moderate at around 74% (Sept, 2017 to Aug, 2018: 88%). The current ratio of the company remained slightly almost stable and stood at 1.05x as on March 31, 2019 (PY: 1.04x). The free cash and bank balance of the company stood at Rs.0.13 crores in FY19 (PY: Rs.0.20 crores).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector

About the Company

Yash Pakka Limited (the name of the company was changed from Yash Papers Limited w.e.f. September 11, 2019) was promoted in 1981 by Mr. KK Jhunjhunwala with an initial installed capacity of 1940 MT per annum in 1983. The company is engaged in manufacturing of machine glazed agro based 30 ~ 100 GSM paper of unbleached Kraft, bleached Kraft and colored Kraft varieties. The company has also entered into the manufacture of tableware products since 2018. The total installed capacity of the company's paper and pulp plant is 40,260 TPA and the installed capacity of the tableware division is 11.50 TPD as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	204.03	254.46
PBILDT	40.16	49.54
PAT	12.47	20.71
Overall gearing (times)	1.90	1.27
Interest coverage (times)	2.64	2.43

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, 2029*	114.74	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	64.73	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	19.35	CARE A3
Non-fund-based - LT-Bank Guarantees	-	-	-	6.41	CARE BBB; Stable

**Inclusive of proposed debt*

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	114.74	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-18)	1)CARE BBB-; Stable (04-Dec-17) 2)CARE BBB-; Stable (17-Nov-17)	-
2.	Fund-based - LT-Cash Credit	LT	64.73	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-18)	1)CARE BBB-; Stable (04-Dec-17) 2)CARE BBB-; Stable (17-Nov-17)	-
3.	Non-fund-based - ST-BG/LC	ST	19.35	CARE A3	-	1)CARE A3 (04-Oct-18)	1)CARE A3 (04-Dec-17) 2)CARE A3 (17-Nov-17)	-
4.	Non-fund-based - LT-Bank Guarantees	LT	6.41	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Oct-18)	1)CARE BBB-; Stable (04-Dec-17)	-

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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