# Yash Papers Limited

October 04,2018

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 184.01 (enhanced from Rs.147.50 crore) | **CARE BBB; Stable (Triple B; Outlook: Stable)** | **Revised from CARE BBB-;Stable (Triple B Minus; Outlook: Stable)** |
| Short-term Bank Facilities | 17.79 (enhanced from 17.50 crore) | **CARE A3 (A Three)** | **Reaffirmed** |
| **Total Facilities** | **201.80 (Rs. Two hundred and one crore and eighty lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the long term rating assigned to the bank facilities of Yash Papers Limited takes into account continuous improvement in the financial risk profile of the company and successful commissioning of the tableware project. The ratings continue to derive strength from experienced promoter with long track record of operations, established customer relationship with robust selling & distribution network, location advantage and cost effective production set-up with integrated operations.

The rating strengths, however, are partially offset by execution risk associated with modification of existing line, high overall gearing of the company and moderate liquidity indicators. Further, ratings are constrained on account of the susceptibility of profitability to volatile raw material prices, cyclical nature of industry and high competition.

Going forward, successful ramp-up of operations from the new tableware project as envisaged along with improvement in scale of operations and capital structure while maintaining the profitability would be the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Improved financial risk profile**

The total operating income has increased by 14.88% to Rs. 201.75 cr in FY18 as against Rs. 175.62 cr in FY17. This was majorly on account of increase in sales both in terms of volume and realisations, and commissioning of tableware project. The profitability of the company has also improved as reflected by PBILDT and PAT margin of 19.91% (PY: 17.92%) and 6.19% (PY:4.43%) respectively in FY18.

Due to better profitability, the coverage indicators such as interest coverage and total debt to GCA also improved during FY18 to 3.13x (2.15x) and 5.80x (8.54x) respectively.

The company reported a total operating income of Rs. 61.40 cr in Q1FY19 as against Rs. 47.29 cr in Q1FY18 i.e.an increase of ~30%. Growth in income was mainly attributable to higher realization from sale of paper and additional contribution from sales of tableware products.

**Successful commissioning of tableware project, though off-take risk continues**

The company has commissioned a forward integration project for manufacturing of biodegradable tableware products with total capacity of 11.50 TPD bagasse pulp. The bagasse pulping is already being done in-house for the paper segment and is be utilized for the tableware segment also. The tableware products are expected to fetch higher margin due to its valued added nature.

The total project cost incurred on the projects was Rs.63.37 crore with the project achieving COD in Jan'18. The company has tied up with 15 domestic distributors to sell the product in the open market including sales to renowned food chains and restaurants. Since the project has recently commissioned, the ramp up of operations from this segment remains to be seen.

**Experienced Promoters with long track record of operations**

YPL was incorporated by Mr. K.K.Jhunjhunwala in 1983 and his son Mr. Ved Krishna is the Managing Director of the company. Mr. Ved Krishna has been associated with the company for last 15 years and therefore has a long experience in the paper industry. Mr. Krishna is well supported by a team of professionals such as Mr. Jagdeep Hira (Joint Managing Director & CEO) who is currently looking after day to day operations of the company. Mr. Hira has a rich experience in the paper industry in the past.

**Established relationship with customers coupled with strong selling & distribution network**

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

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 developed good relationship with various customers leading to repeat orders. The products of the company cater to various uses like tobacco packaging, soap covers, sugar pouches (food industry), surgical packaging, envelopes and pharmaceuticals etc.

YPL sells its products in the domestic markets through its established distributor network across India. Export of Paper is carried out through merchant exporters and agents appointed in various countries, to look after specific regions.

**Location advantages in the form of easy availability of raw material and paddy husk**

The main raw materials used by the company in its manufacturing process are agro-based raw material such as bagasse, wheat straw and rice husk. Bagasse and wheat straw together accounted for around 73% (PY: 72%) of the total raw material cost for the company during FY18. The plant is located in Uttar Pradesh (UP) which is the sugarcane hub of India and also paddy husk growing area, thus ensuring adequate availability of raw materials and paddy husk. 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 material to the company.

**Cost effective production set-up with integrated operations**

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 energy intensive in nature. Power cost constituted around 16% of total operating income in FY18 (PY: 14%). 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.

YPL has an integrated soda recovery plant which helps it to recover around 97% of the caustic soda thereby reducing the cost considerably.

**Key Rating Weakness**

**Project execution risk**

YPL is in the process of modifying one of its existing line (PM3) and enhancing the total installed capacity for paper manufacturing of the plant by 9900 TPA by May'19 (FY20). The modification of the existing line would result in enhanced strength and quality of paper manufactured by the company. The total project cost is estimated to be Rs. 31.25 cr. The project is being undertaken by the company in order to cater to expected increase in demand of paper and paper products majorly paper bags due to ban of plastic bags in various states. Post the modification and expansion, YPL would be able to supply better quality paper with higher strength which can be used in making paper bags also.

**High overall gearing and moderate liquidity indicators**

The overall gearing of the company though improved but remained high at 1.90x (PY: 2.35x)as on 31st March 2018. The gearing levels improved on account of infusion of equity of Rs. 3.30 cr in FY18 and accretion of surplus to net worth. Going forward, with improving profitability and its accretion to net worth the overall gearing is expected to improve further.

The liquidity of the company also remained moderate due to on-going capital expenditure and inventory built up for the tableware segment leading to current ratio of 1.02x (PY: 1.03x) as on 31st March 2018. Further, the working capital utilization of the company remained high with average utilization of 87.76% for the past 12 months ending August 2018.

**Susceptibility of profitability to volatile raw material prices with limited ability to pass on the impact to customer**

The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players as well as imports. This limits the pricing power of the manufacturers and puts 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 coal and raw material price would be the key rating sensitivity.

**Cyclical nature of industry and high competition**

The Indian paper industry is highly fragmented with the presence of many small unorganized players. The demand for paper is directly correlated to the level of economic activity, as higher industrial output leads to increased demand for paper and greater education and office activities raises the demand for writing and printing paper.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Manufacturing Companies]
[CARE's methodology for financial ratios (Non-Financial Sector)]

**About the Company**

Yash Papers Limited 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 uses agri-residues such as bagasse, and wheat straw as its major raw material for manufacturing paper. The company's operation is based in Faizabad district of Uttar Pradesh. The total installed capacity as on March 31, 2018 for paper manufacturing stood at 39,100 TPA.

| Brief Financials (Rs. crore) | FY17 (Aud.) | FY18 (Aud.) |
|---|---|---|
| Total operating income | 175.62 | 201.75 |
| PBILDT | 31.46 | 40.14 |
| PAT | 7.79 | 12.48 |
| Overall gearing (times) | 2.35 | 1.90 |
| Interest coverage (times) | 2.15 | 3.13 |

*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

***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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**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 | - | - | June 2025 | 97.87 | CARE BBB; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 79.73 | CARE BBB; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 17.79 | CARE A3 |
| Non-fund-based - LT-Bank Guarantees | - | - | - | 6.41 | CARE BBB; Stable |

**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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 97.87 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (04-Dec-17)<br>2)CARE BBB-; Stable (17-Nov-17) | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 79.73 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (04-Dec-17)<br>2)CARE BBB-; Stable (17-Nov-17) | - | - |
| 3. | Non-fund-based - ST-BG/LC | ST | 17.79 | CARE A3 | - | 1)CARE A3 (04-Dec-17)<br>2)CARE A3 (17-Nov-17) | - | - |
| 4. | Non-fund-based - LT-Bank Guarantees | LT | 6.41 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (04-Dec-17) | - | - |

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