

Yash Papers Limited

December 04, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Term Loan)	83.62	CARE BBB-; Stable (CARE Triple B Minus; Outlook: Stable)	Reaffirmed
Long-term Bank Facilities (Working capital facility)	58.34	CARE BBB-; Stable (CARE Triple B Minus; Outlook: Stable)	Reaffirmed
Long-term Bank Facilities (Non Fund Based - BG)	5.54	CARE BBB-; Stable (CARE Triple B Minus; Outlook: Stable)	Reaffirmed and reclassified from Short term
Short-term Bank Facilities	17.50	CARE A3 (A Three)	Reaffirmed
Total Facilities	165.00 (Rs. One hundred sixty five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long term bank facilities of Yash Papers Limited continues to derive strength from experienced promoter and professional management team, long track record of operations leading to established customer relationship, robust selling & distribution network, location advantage and cost effective production set-up with integrated operations. The ratings also take into cognizance of the exit from CDR in September, 2016, successful completion of forward integration project and moderate financial risk profile.

These strengths, however, are partially offset by susceptibility of profitability to volatile raw material prices with limited ability to pass on the impact to customer and cyclical nature of industry and high competition.

Going forward, ramp-up of production and achievement of off-take from new tableware project as envisaged along with improvement profitability while maintaining the overall gearing would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and Professional Management team

YPL was incorporated by Mr. K.K.Jhunjunwala 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 served as Head of Process for Paper Division at Century Textiles & Industries Ltd and as a Vice President of Operations at ABC Paper Limited.

Long track record of operations leading to established relationship with customers and robust selling & distribution network

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 company caters to various multinational companies in industries like tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals etc.

YPL sells its products in the domestic markets through a well dispersed 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

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

The main raw materials used by the company in its manufacturing process are agro-based raw material such as bagasse and wheat straw. Bagasse (42%) and wheat straw (7%) together accounted for around 50% of the cost of material consumed for the company during FY17. The plant is located in Uttar Pradesh (UP) which is the sugarcane hub of India, thus ensuring adequate availability of raw materials. 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 plants of 8.5 MW and a 145 TPD soda recovery plant. The paper industry is capital and energy intensive in nature. Power cost constituted around 13% of total operating income in FY17 (PY: 17%). To source its power requirements, the company have captive power plants 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.

Exit from CDR in Sept, 2016

YPL went into CDR (cut off date July 01, 2011) on account of technical fault in Paper Machine 3, increase in raw material prices and shortage of adequate working capital for the newly installed Paper Machine 3, leading to losses. The CDR-EG in its meeting held on June 01, 2012 had approved CDR Package (cut-off date being July 01, 2011) of the company.

The company has exited from this CDR package wef 1st July, 2016 as confirmed in the meeting of CDR EG held on 27th September, 2016 and communicated to the company vide its letter dated 10th October, 2016. The company as per the terms and conditions of the CDR Package, has paid an amount of Rs. 73.04 lacs as "Recompense amount" to the Consortium lenders.

Successful completion of forward integration project

The company has commissioned a forward integration project in FY 18 for manufacturing of biodegradable tableware products with total capacity of 11.50 TPD bagasse pulp. The bagasse pulp would be sourced from existing paper plant pulp Mill and YPL plans to manufacture around seven to nine lakhs tableware pieces per day. The tableware products are expected to fetch higher margin due to the value added nature.

The total project cost incurred is Rs.54 crore funded through term loan of Rs.40.50 crore (already tied up) and equity / unsecured loan of Rs.13.5 crore. The trial production started since August, 2017. The company plans to declare the COD in November, 2017.

Moderate financial risk profile

The total operating income of the company has remained stable during the last three years. During FY17 (Aud) the total volume of sales volume declined marginally on account of lower export volumes. However, the PBILDT and PAT margin improved during FY17 by 253bps and 200 bps respectively on account of better sales realization.

The overall gearing of the company moderated during FY17 to 2.44x as on March 31, 2017 (PY: 2.07x) primarily on account of addition of term loan of Rs.26.51 crore towards the tableware project. Other coverage indicators such as interest coverage and total debt to GCA remained moderate during FY17 at 2.05x and 9.54x respectively.

Key Rating Weakness

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. 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 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](#)

[Criteria for Short-term Instruments](#)

[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, 2017 for paper manufacturing stood at 39,100 TPA.

Brief Financials (Rs. crore)	FY16 (Aud.)	FY17 (Aud.)
Total operating income	173.33	173.81
PBILD	24.59	29.04
PAT	2.85	6.40
Overall gearing (times)	2.07	2.44
Interest coverage (times)	1.66	2.05

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	83.62	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	58.34	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	17.50	CARE A3
Non-fund-based - LT-Bank Guarantees	-	-	-	5.54	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	83.62	CARE BBB-; Stable	1)CARE BBB-; Stable (17-Nov-17)	-	-	-
2.	Fund-based - LT-Cash Credit	LT	58.34	CARE BBB-; Stable	1)CARE BBB-; Stable (17-Nov-17)	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	17.50	CARE A3	1)CARE A3 (17-Nov-17)	-	-	-
4.	Non-fund-based - LT-Bank Guarantees	LT	5.54	CARE BBB-; Stable	-	-	-	-

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