

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

December 22, 2022 | Mumbai

Ganga Papers India Limited

'CRISIL BBB-/Stable/CRISIL A3' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.53.35 Crore
Long Term Rating	CRISIL BBB-/Stable (Assigned)
Short Term Rating	CRISIL A3 (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed rationale

CRISIL Ratings has assigned its 'CRISIL BBB-/Stable/CRISIL A3' ratings to the bank facilities of Ganga Papers India Limited (GPIL).

The ratings reflect the strong business risk profile of GPIL, as reflected in revenue of Rs 157.53 crore in the first half of fiscal 2023, and expectation of nearly 5% year-on-year growth to reach around Rs 290 crore for the entire fiscal. Growth would be driven by sustenance of improved demand in the kraft and newsprint paper segment, with gradual reopening of educational institutions/offices, better utilisation levels and rise in volume and realisations.

Operating margin declined to 4.22% in fiscal 2022 from 5.62% in fiscal 2021, as the company faced a lag of 3-4 months in passing on the hike in raw material prices to its customers. The margin should sustain around 4.5% over the medium term. Capital expenditure (capex) incurred towards installation of a solar power plant should help reduce the cost of power and fuel and enhance the operating efficiency going forward. Decline in freight cost and coal prices and machinery upgradation should also aid profitability going forward.

The ratings also factor in the moderate financial risk profile of GPIL, marked by net worth and gearing of Rs 24.38 crore and 1.7 times, respectively, as on March 31, 2022, and projected around Rs 30 crore and 1.22 times, respectively, as on March 31, 2023. Liquidity will be supported by net cash accrual of Rs 7-11 crore against debt obligation of Rs 3-5 crore over the medium term.

The ratings factor in the extensive experience of the promoters in the paper industry and the diversified product portfolio of GPIL. These strengths are partially offset by exposure to cyclicity in the paper industry and susceptibility to volatility in input prices.

Analytical approach

Unsecured loan of Rs 0.2 crore extended by the promoters as on March 31, 2022, has been treated as 100% debt.

Key rating drivers & detailed description

Strengths:

Extensive experience of the promoters in the paper industry: The three-decade-long experience of the promoters in the paper industry, their strong understanding of market dynamics and healthy relationships with customers and suppliers will continue to support the business risk profile. Revenue is expected to grow to around Rs 290 crore in fiscal 2023, driven by rise in volume and realizations. The diversified product portfolio comprises fluting paper, test liner kraft, AOCC pulp, OCC Pulp, ONP pulp and de-ink pulp. The company has an installed capacity of 1,08,000 metric tonnes per annum.

Above-average financial risk profile: Net worth stood at Rs 24.38 crore as on March 31, 2022, and is likely to reach Rs 30 crore, as on March 31, 2023, supported by healthy accretion to reserves. Gearing stood at 1.7 times as on March 31, 2022, and should improve to 1.25 times as on March 31, 2023, aided by lower reliance on external debt. Capital structure is expected to remain above-average over the medium term. Debt protection metrics were healthy, indicated by interest coverage and net cash accrual to total debt ratios of 4.48 times and 0.18 time, respectively, in fiscal 2022.

Weaknesses:

Exposure to cyclicity in the paper industry: The paper industry is inherently cyclical, mainly due to the long gestation period involved in capacity addition and lead time for raw material generation. Given its commoditized nature, price of paper tends to fluctuate sharply and adversely affects profitability of paper manufacturers. Demand for paper is also linked to the level of economic activity. Hence, cyclical downturns or any imbalance in the demand-supply scenario may cause volatility in realizations. Furthermore, ability to pass on any hike in raw materials cost to end-customers, amidst the demand-supply dynamics, will remain a key monitorable.

Susceptibility to volatility in input prices: Operating margin dropped to 4.22% in fiscal 2022 from 5.62% in fiscal 2021, as the company faced a lag of 3-4 months in passing on the hike in raw material cost to its customers. Moreover, being a non-integrated player, GPIL is highly dependent upon procurement of imported wastepaper, unlike other leading players in the paper industry.

This restricts the operating margin and exposes the company to risks, related to foreign exchange rates and supply chain movement.

Liquidity: Adequate

Net cash accrual of Rs 7-11 crore expected per annum, will sufficiently cover incremental working capital expenses, post servicing of yearly debt of Rs 3-5 crore in the medium term. Fund-based limit was utilized at 65% on an average over the 12 months through November 2022. Current ratio was modest at 1.36 times as on March 31, 2022. The company had free cash and balance of Rs 5.06 crore as on September 30, 2022.

Outlook: Stable

CRISIL Ratings believes GPIL will continue to benefit from the extensive experience of its promoters, in the paper industry and their established relationships with clients.

Rating sensitivity factors

Upward factors

- Sustained growth in revenue (by 40%) and operating margin (to 6-6.5%), leading to higher cash accrual
- Improvement in financial risk profile, with gearing under 1.25 times

Downward factors

- Decline in revenue, leading to net cash accrual below Rs 6 crore
- Any large debt-funded capex or substantial increase in working capital requirement, weakening liquidity and financial risk profile

About the company

GPL was initially incorporated as Kasat Paper & Pulp by the promoter, Mr Shrikant Kasat. It was subsequently converted into a public limited company in December 1992. Operations are currently managed by Mr RK Chaudhary and his friend, Mr Sandeep Kanoria. The company manufactures kraft paper and newsprint paper.

Key financial indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	279.79	177.18
Reported profit after tax (PAT)	Rs crore	5.36	4.13
PAT margin	%	1.91	2.33
Adjusted debt/adjusted networth	Times	1.7	2.04
Interest coverage	Times	4.48	4.09

Status of non-cooperation with previous CRA

GPIL has not cooperated with ICRA Ltd, which has classified it as non-cooperative through a release dated June 28, 2017. The reason provided by ICRA is non-furnishing of information for monitoring the ratings.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisil.com/complexity-levels. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Bank guarantee	NA	NA	NA	2	NA	CRISIL A3
NA	Cash credit	NA	NA	NA	4.5	NA	CRISIL BBB-/Stable
NA	Packing credit	NA	NA	NA	35	NA	CRISIL A3
NA	Term loan	NA	NA	Mar-27	11.85	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	51.35	CRISIL BBB-/Stable / CRISIL A3	14-11-22	Withdrawn (Issuer Not Cooperating)*	30-04-21	CRISIL B /Stable(Issuer Not Cooperating)*	30-01-20	CRISIL BB /Stable(Issuer Not Cooperating)*	30-04-19	CRISIL BB/Stable	CRISIL BB/Stable
				28-06-22	CRISIL B /Stable(Issuer Not Cooperating)*	--	--	--	--	--		

Non-Fund Based Facilities	ST	2.0	CRISIL A3		--		--		--		--		--
---------------------------	----	-----	-----------	--	----	--	----	--	----	--	----	--	----

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	2	Punjab National Bank	CRISIL A3
Cash Credit	4.5	Punjab National Bank	CRISIL BBB-/Stable
Packing Credit	35	Punjab National Bank	CRISIL A3
Term Loan	11.85	Punjab National Bank	CRISIL BBB-/Stable

This Annexure has been updated on 22-Dec-2022 in line with the lender-wise facility details as on 22-Dec-2022 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Assessing Information Adequacy Risk

Media Relations	Analytical Contacts	Customer Service Helpdesk
<p>Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com</p> <p>Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com</p> <p>Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com</p>	<p>Nitin Kansal Director CRISIL Ratings Limited D:+91 124 672 2154 nitin.kansal@crisil.com</p> <p>Rachna Anand Team Leader CRISIL Ratings Limited D:+91 22 4040 2953 rachna.anand@crisil.com</p> <p>Anzar Quadri Rating Analyst CRISIL Ratings Limited B:+91 124 672 2000 Anzar.Quadri@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesks@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the

results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>