



RATING RATIONALE

16 Sept 2020

Ganga Papers India Ltd

Brickwork Ratings reaffirms the long term rating and assigns the short term ratings for the Bank Loan Facilities of Rs.29.62 Crs of Ganga Papers India Ltd

Particulars:

Facility	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (16 Aug 2019)	Present
Fund Based	28.46	26.92	Long Term	BWR BB Stable	BWR BB Stable (Reaffirmed)
Fund Based	-	2.70	Short Term	N.A	BWR A4 Assigned
Total	28.46	29.62	Rupees Twenty Nine crores and Sixty Two Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Reaffirmation in the long term- and assignment in the short term-ratings of Ganga Papers India Ltd (GPIL or the company), factors in its stable debt coverage indicators, growth in revenues, besides improvement in profit margins and gearing. The ratings are, however, constrained by moderate scale of operations, low net worth position and poor financial leverage. During FY20, although the company surpassed its projections of Rs.135.80 crs to generate actual total revenues of Rs.139.71 crs, the company fell short of estimated profit margins due to higher than anticipated operating expenses, particularly cost of raw materials. Due to lower net profits, net worth fell short of projections resulting in lower than expected gearing, with debt levels remaining at same levels due to higher utilisation of working capital facilities at the end of the financial year, as also owing to higher than anticipated trade payables.

The company has generated revenues of approximately Rs.30 crs in 3MFY21 and the company is expected to surpass the revenues and profit margins of FY20. As the company has not projected any major debt funded capex and increase in working capital borrowings, overall gearing is expected to improve due to improvement in net worth.



COVID-19 Impact: Due to the essential nature of the paper industry, the company has been operating with minimal staff w.e.f 4th April 2020 after obtaining requisite permission from the authorities. The company has been sanctioned emergency credit lines of credit, and has been utilising capital and undrawn lines of credit for meeting liquidity in the business. The company has availed loan moratorium as announced by RBI under COVID 19 regulatory package.

Outlook: Stable

BWR believes the **Ganga Papers India Ltd.**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

KEY RATING DRIVERS

Credit Risks:

- **High competition and fragmentation:** Due to lower entry barriers by limited capital and technological requirements, small gestation period and easy availability of raw material, the paper industry is characterised by high fragmentation and intensive competition with presence of large number of small and medium players reducing bargaining power with buyers and increasing competition in pricing of finished goods. Further, environmental concerns play a major role in shaping up regulations that have a sizable bearing on the business operations of the industry players.
- **Financial Leverage:** Due to increase in debt during past few years to support debt funded capex and increase in working capital borrowings, financial leverage viz. Net debt/EBITDA is poor at 5.05x in FY20 indicating high debt versus serviceability.
- **Forex Risks:** Inward remittances on account of exports are not hedged by forward cover. Thus, the exports are exposed to counterparty default and forex risks.
- **Other risks:** Absence of long contracts for sourcing raw material exposes the business to fluctuations in prices of raw material thereby affecting profitability. Substitution of Kraft paper by polyfilms in the packaging industry is the other business risk.

Credit Strengths

- **Revenue Growth:** During FY20, operating revenues of the company improved to Rs.139.70 crs (P.Y Rs.132.33 crs) due to improvement in utilisation of production capacity and extensive marketing efforts taken by the company during recent past.
- **Profit Margins:** During FY20, operating profit margin and net profit margin of the company improved to 4.97% (P.Y 4.89%) and 1.33% (P.Y 1.24%) due to decline in raw material prices.



- **Networth and Gearing:** TNW of the company improved to Rs.14.89 crs (P.Y Rs.13.02 crs) due to retention of profits. During FY20, gearing has improved marginally as indicated by Total Debt/TNW of 2.63x (P.Y 2.92x) and TOL/TNW of 3.45x (P.Y 3.55x) due to improvement in net worth on account of retention of profits.
- **Debt Coverage:** During FY20, debt coverage profile as indicated by DSCR and ISCR remains stable and moderate at 1.58x (P.Y 1.55x) and 2.07x (P.Y 2.08x) respectively.
- **Diversification of client base:** In order to diversify the client base and mitigate business risks, the company has commenced exporting manufactured products to countries in the Middle East, particularly the UAE. On a provisional basis, the company has made exports of Rs.10 crs during current FY and expects total exports of Rs.25 crs during FY21.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Rating is sensitive to overall gearing as indicated by Total Debt/TNW ratio and TOL/TNW ratio and debt coverage profile as indicated by DSCR and ISCR. Substantial improvements in gearing and debt coverage with improvement in revenues and profit margins would support positive rating action.

Decline in gearing and debt coverage profile would attract negative rating action. Any debt funded capex and/or additional external borrowings should be supported by infusion of owned funds and improvement in profits to support increase in borrowing expenses.

LIQUIDITY POSITION : Stretched

Liquidity in the company is adequate with positive net working capital of Rs.4 crs and a low cash conversion cycle of 33 days during FY20. The company has availed a 6M moratorium on loan repayments announced by RBI under COVID 19 regulatory package to mitigate cash flow mismatches. The company has also availed COVID 19 emergency line of credit of Rs.1.80 crs to meet liquidity shortages and has proposed to avail additional funding of Rs.2.75 crs from banks under COVID 19. Unsecured loans of Rs.2.98 crs from related parties are proposed to be retained during the foreseeable future (at least during next 2-3 years). The company has projected cash accruals of Rs.4.11 crs and Rs.4.35 crs during FY21 and FY22 respectively against debt repayment obligations of Rs.1.80 crs and Rs.3.75 crs respectively, after considering moratorium on loan repayments during April 2020 to August 2020 under RBI COVID 19 regulatory package. The company has also been availing deferred payment liabilities of Rs.4.63 crs under deferred scheme of sales tax, which is payable as per the scheme framed by the State government read with order of BIFR. As per information available with BWR, the state government has raised demand, but the matter is contested by the company and is under litigation. The company may face sudden liquidity shortage in case of adverse decision by the court for immediate payment of liability by the company.

COMPANY PROFILE

GPIL incorporated in March 1985 with its current registered office at 241, vill. Bebedohal, Tal. Maval, Pune, Maharashtra, is engaged in manufacturing of kraft paper and newsprint paper. GPIL was initially incorporated by Shrikant Mohanlal Kasat and was taken public in 1996. It was declared sick and was registered with BIFR in 2003 due to adverse operating conditions and was later taken over by its current promoters, Mr. Ramesh Chaudhary and Mr. Sharwan Kumar Kanoria in 2006.

KEY FINANCIAL INDICATORS

Key Parameters	Units	2019(Aud)	2020 (Aud)
Operating Revenue	Rs. crs	132.33	139.71
EBITDA	Rs. crs	6.47	6.94
PAT	Rs. crs	1.64	1.86
Tangible Net worth	Rs. crs	13.02	14.89
TOL/TNW	Times	3.55	3.45
Current Ratio	Times	1.12	1.06

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : (1) CRISIL BB (Stable) (INC) on 30th June 2020 for Rs.36 crs.

RATING HISTORY for the past three years (Including withdrawn and suspended)

Instrument /Facility	Current Year (2020)			Rating History								
	Current Rating			16 August 2019			11 May 2018		09 Feb 2017			
Bank Loan Facility	FB	Rs.26.92 crs	BWR BB Stable				FB	Rs.14 crs	BWR BB-Stable)	FB	Rs.14 crs	BWR BB-(Stable)

*Issuer did not Cooperate. Based on the best available information.

ANNEXURE I

**Ganga Papers India Ltd
Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term {(₹ Cr)}	Total (₹ Cr)
1	Punjab National Bank, Mahmoorganj, Varanasi	Cash Credit	15.30	NIL	15.30
2		PC/FOBP	NIL	2.70	2.70
3		Term Loan 1	9.82	NIL	9.82
4		Term Loan 2 (COVID DL)	1.80	NIL	1.80
TOTAL			26.92	2.70	29.62

Total Rupees Twenty Nine crores and Sixty Two Lakhs only.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Manufacturing Companies](#)

Analytical Contacts	Investor and Media Relations
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<p>[Saurabh Agarwal] Primary Analyst [Board: +91 11 23412232] [saurabh.a@brickworkratings.com]</p> <p>[Ashwini Mital] [Director – Ratings] [Board: +91 172 5032295/96] [ashwinimital@brickworkratings.com]</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications M : +91 84339 94686 liena.t@brickworkratings.com</p>
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