Yash Pakka Limited

February 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	138.71	CARE BBB; Stable	Assigned
Short Term Bank Facilities	23.41	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Yash Pakka Limited (YPL) derive strength from experienced and professional management team, long track record of operations, and consistently healthy profitability margins reported by the company owing to cost-effective production set-up with integrated operations along with locational advantage in terms of raw material procurement. The ratings further derive strength from moderate financial risk profile marked by low overall gearing and established customer relationships with robust selling and distribution network. These rating strengths are however, offset by proposed large size capex for capacity augmentation which exposes the company to timely implementation and stabilization risk, vulnerability of profitability margins to fluctuation in raw material prices, and highly competitive and cyclical nature of paper industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations above Rs.600.00 crore and PBILDT margin above 18% on a sustained basis.
- Sustained improvement in operational cash flows to maintain healthy liquidity and debt coverage indicators.

Negative factors

- Deterioration in scale of operations with the PBILDT margin below 10% on a sustained basis.
- Any large debt-funded capex adversely affecting capital structure leading to overall gearing above 2.00x on a sustained basis.

Analytical approach: Standalone

Key strengths

Experienced and professional management team: 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 Late Mr. KK Jhunjhunwala. Currently, Mr. Pradeep Vasant Dhobale (Chairman), having an industry experience of more than 30 years, heads the board of the company. Prior to YPL, he headed the paper division of ITC. Mr. Jagdeep Hira (Managing Director) (aged 50 years) who is a graduate by qualification and has industry experience of more than 20 years looks after the overall operations of the company.

Long track record of operations and established relationship with customers: YPL has a long track record of operations and has been engaged in the paper industry for over four 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 including tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals. Kraft paper contributed ~78% of the total operating income in FY22 with pulp and compostable moulded products contributing to the remaining revenue. YPL sells its products in the domestic market through an established distributor network of 25 dealers across India. Export of paper accounting for 24% of the total revenue in FY22 (refers to the period from April 1 to March 31) 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: YPL has cost-effective production set-up as characterized by captive power plant of 8.5 MW (Mega-watt) and a 145 MTPD (Metric tonne per day) soda recovery plant. The paper industry is capital and energy intensive in nature. Power cost constituted ~11% of total operating income in FY22 (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. Caustic soda which constitutes around 4% of the operating expenses (material costs and consumables) is integral to paper manufacturing process and is used in formation of pulp as well as used during bleaching of pulp. YPL has an integrated soda recovery plant which helps it to recover around 97% of the caustic soda thereby reducing the cost considerably.

Healthy profitability margins: The scale of operations of the company remained moderate with total operating income growing by ~54% to Rs.296.60 crore in FY22 (PY: Rs.192.05 crore) primarily on account of lower scale of operations reported in FY21

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

due to nation-wide lockdown on account of covid-19. In terms of profitability, the PBILDT margin of the company remained high as reflected by PBILDT margin of 24.56% in FY22 (PY: 21.24%) owing to cost-effective production setup coupled with integrated operations. Consequently, the company reported healthy PAT margin of 12.88% in FY22 (PY: 8.71%).

During 9MFY23 (refers to the period from April 01 to December 31), the total operating income of the company grew by ~42% to Rs.303.86 crore (PY: Rs.213.94 crore) driven by improvement in realization price of kraft paper. The PBILDT margin of the company continued to remain high at 23.46% in 9MFY23 (PY: 27.08%). Consequently, the company reported healthy PAT margin of 13.11% in 9MFY23 (PY: 14.37%). Going forward, CARE expects the PBILDT margin to remain in the range of ~22%-23%.

Moderate financial risk profile: The overall gearing of the company remained moderate at 0.70x (PY: 0.73x) as on March 31, 2022. Further, the debt coverage indicators of the company were comfortable as reflected by PBILDT interest coverage of 7.78x (PY: 3.73x) and total debt/GCA of 1.93x (PY: 3.30x) in FY22.

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 ~71% of the total raw material cost during FY22 (PY: ~72%). 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 weaknesses

Sizeable debt-funded capex: YPL is projected to incur large size capex of Rs.445.00 crore (~228% of tangible net-worth as on December 31, 2022) in FY24-FY26 (refers to the period from April 01, 2023 to March 31, 2026) pertaining to manufacturing of grease proof paper for flexible packaging with a total capacity of 29,700 MTPA (Metric tonne per annum). The capex is proposed to be funded by debt (~76%), equity (~20%), and remaining through internal accruals (~4%). Timely financial tie-up and completion of capex without any cost overrun would be a key monitorable.

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. However, YPL has entered into long-term agreement (5-year agreement ending 2024) with Balrampur Chinni Mills Limited and KM Sugar Mills Limited (covering ~90%-95% of the total bagasse requirement) for supply of bagasse thus limiting the price fluctuation risk to an extent.

Stringent pollution control norms: Paper industry is one of the most polluting industries, as identified and categorized by Central Pollution control Board (CPCB) as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing processes, the paper industry produces large volume of wastewater and residual sludge waste, presenting number of issues in relation to wastewater treatment, discharge and sludge disposal. YPL has an adequate Effluent treatment Plant (ETP) in place with a capacity to treat the entire quantity of waste water produced by the company. Further, the company has complied with the norms specified by CPCB.

Highly fragmented and competitive industry: The kraft paper industry is highly fragmented 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 low, the players in this industry do not have pricing power and are exposed to competition induced pressures on profitability.

Prospects: YPL's prospects are linked to packaging segment which has witnessed better demand compared to other segments during the COVID-19 induced lockdown period and thereafter in FY22. Packaging segment is expected to grow in FY23 (refers to the period from April 01 to March 31) backed by an increase in economic activities during the year and increased demand from end user industries like food, pharmaceuticals and FMCG industry. The paper & paper products industry is also likely to see further price increases during FY23 on account of returning demand and higher input prices.

Liquidity: Adequate: The liquidity position of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.73.78 crore in FY24 (refers to the period from April 01 to March 31) against scheduled repayment of Rs.13.77 crore. Further, the average utilization of working capital borrowings stood ~71% for the trailing 12 months ended December 31, 2022. The company had free cash and bank balance to the tune of Rs.2.17 crore as on December 31, 2022. Apart from the large size debt funded capex, the company is projected to incur regular maintenance capex of Rs.10.00 crore in FY24 which shall be funded from internal accruals.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

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 Late 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 coloured 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 45,625 MTPA at its manufacturing plant located in Ayodhya, Uttar Pradesh as on December 31, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (P)
Total operating income	192.05	296.60	303.86
PBILDT	40.79	72.84	71.30
PAT	16.72	38.20	39.85
Overall gearing (times)	0.73	0.70	0.44
Interest coverage (times)	3.73	7.78	8.72

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: India Ratings vide P.R. dated July 28, 2022 and Brickwork vide P.R. dated December 27, 2022**.**

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2025	43.71	CARE BBB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	95.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	23.41	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (30-Jul-21) 2)Withdrawn (30-Jul-21)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (03-Feb-21)	1)CARE BBB; Stable (22-Jan-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (30-Jul-21) 2)CARE BBB; Stable (30-Jul-21)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (03-Feb-21)	1)CARE BBB; Stable (22-Jan-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A3 (30-Jul-21) 2)Withdrawn (30-Jul-21)	1)CARE A3; ISSUER NOT COOPERATING* (03-Feb-21)	1)CARE A3 (22-Jan-20)
4	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	1)Withdrawn (30-Jul-21) 2)CARE BBB; Stable (30-Jul-21)	1)CARE BBB; Stable; ISSUER NOT COOPERATING* (03-Feb-21)	1)CARE BBB; Stable (22-Jan-20)
5	Fund-based - LT-Term Loan	LT	43.71	CARE BBB; Stable				
6	Fund-based - LT-Working Capital Limits	LT	95.00	CARE BBB; Stable				
7	Non-fund-based - ST-BG/LC	ST	23.41	CARE A3+				

*Issuer not cooperating, based on best available information.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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