Pakka Limited

March 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	445.53 (Reduced from 454.83)	CARE BBB (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	23.41	CARE A3+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Pakka Limited (PL) have been placed on rating watch with developing implications on account of large size capex to the tune of Rs.670.0 crore, which is substantially higher than the capex envisaged by CARE in the last rating exercise. The same pertains to commissioning of new manufacturing line of greaseproof paper for flexible packaging, which is proposed to be funded through a mix of debt, equity and internal accruals with impending debt tie up. CARE will continue to monitor the developments in this regard and will take a view on the ratings, once the exact financial implications of the above on the credit profile of the company is clear.

The ratings continue to derive comfort from steady scale of operations with 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 and moderate financial risk profile. The ratings further derive strength from experienced and professional management team, long track record of operations, and established customer relationships with robust selling and distribution network.
The ratings, however, continue to remain constrained due to 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, strict pollution control norms 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 1.50x on sustained basis.

Analytical approach: Standalone

Detailed description of the key rating drivers:

Key strengths

Improving scale of operations with healthy profitability margins: The scale of operations of the company has improved as evident by growth in total operating income by ~40% to Rs.415.85 cr in FY23 (PY: Rs.296.60 cr) driven by increase in sales volume and improvement in realization price of kraft paper and table ware. Despite a slight dip, the profitability margins remains healthy as evidenced by PBILDT margin of 22.37% in FY23 (PY: 24.56%) owing to cost-effective production setup coupled with integrated operations. The dip in PBILDT margin by 219 bps is attributed to increase in power & fuel expenses to 16.27% of total TOI (PY: 11.35% of total TOI) on account of increase in price of rice husk, consequently PAT margin stood at 12.38% (PY: 12.88%).
During 9MFY24 (refers to the period from April 01 to December 31), the total operating income remained stable at Rs.310.16 cr (9MFY23: Rs.303.86 cr) with PBILDT margin of 21.99% (9MFY23: 23.46%).

Cost effective production set-up with integrated operations: The company possesses 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 ~16% of total operating income in FY23 (PY: ~11%). To source its power requirements, the company has setup a captive power plant (rice-husk based) which takes care of major power requirement of the company.

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

Locational Advantages in the form of easy availability of raw materials: The primary raw material used by the company in its manufacturing process is agro-based raw materials such as bagasse. The plant is located in Uttar Pradesh, which is the sugarcane hub of India, thus the plant benefits from ample access to 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.

Moderate financial risk profile: The company's financial risk profile remains at moderate level demonstrated by improvement in overall gearing to 0.50x (PY: 0.70x) as on March 31, 2023 due to reduction in term debt and accretion of profit. Further, the debt coverage indicators of the company continued to remain healthy as reflected by PBILDT interest coverage of 8.36x (PY: 7.78x) and total debt/GCA of 1.47x (PY: 1.93x) in FY23 due to the expanding scale of operations.

Experienced and professional management team: Pakka Limited (the name of the company was changed from Yash Papers Limited w.e.f. September 11, 2019 and Yash Pakka Limited w.e.f. July 06, 2023) was promoted in 1981 by Late Mr. KK Jhunjhunwala. Currently, the company is led by Mr. Pradeep Vasant Dhobale, serving as Chairman, bringing with him over 30 years of industry expertise. Prior to joining Pakka Limited, Mr. Dhobale held a leadership position in the paper division of ITC. Mr. Jagdeep Hira holding a graduate degree, serves as the Managing Director, overseeing the overall operations of the company, with more than 20 years of industry experience.

Long track record of operations and established relationship with customers: Pakka Limited has a long track record of operations and has been engaged in the paper industry for over four decades which has helped in establishing long-standing business relationships with customers and getting regular orders from them. The company caters to various multinational companies in industries including tobacco packing, flexible packing for soap manufacturing, food industry and pharmaceuticals. Kraft paper contributed ~76% of the total operating income in FY23 with pulp and compostable moulded products contributing to the remaining revenue. Utilizing an established network of dealers throughout India, PL distributes its products in the domestic market. Export of paper accounting for 24% of the total revenue in FY23 (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.

Key weaknesses

Sizeable debt-funded capex: Presently, India relies majorly on imports for supply of greaseproof paper. Pakka Limited plans to undertake a large size capex of Rs.670.00 cr (~3.2x of tangible net-worth as on March December 31, 2023) 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) for distribution within the domestic market. The capex is proposed to be funded by debt (~67%), equity (~29%), and remaining through internal accruals (~4%). Timely financial tie-up and completion of capex without any cost overrun would be a key monitorable.

Highly fragmented and competitive industry along with volatile raw material price: 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. PL uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. With respect to the agro-based raw materials, there are limitations in their use due to seasonal availability leading to high volatility in their prices. Therefore, the operating profitability of the company remains highly susceptible to any volatility in raw material prices.

Stringent pollution control norms: The paper industry is recognized as one of the most environmentally impactful sectors, classified by the Central Pollution Control Board (CPCB) due to its extensive use of freshwater resources. Given that water is integral to nearly every stage of the manufacturing process, the industry generates significant volumes of wastewater and residual sludge waste, posing challenges in wastewater treatment, discharge, and sludge disposal. Pakka Limited (PL) has implemented an adequate Effluent Treatment Plant (ETP) to treat all wastewater generated by the company. Moreover, PL has ensured compliance with CPCB regulations and norms governing environmental standards.

Prospects: Careedge Ratings expects that as the demand softens and with an expected increase in global pulping capacity, the NPR (Net price realization) is expected to be in the range of Rs. 75,000 per tonnes to Rs. 85,000 tonnes for FY24 (refers to the period from April 01, 2023 to March 31, 2024). This moderation of NPR is expected to moderate the topline and operating margins by 200-300 bps from H2FY24, an after effect of softening of raw material prices in H1FY24."

Liquidity: Adequate
The liquidity of the company remains adequate as reflected by projected gross cash accruals to the tune of Rs.64.97 cr in FY24 as against scheduled repayment of Rs.9.03 cr. The free cash & bank balance of Rs.0.77 cr, current ratio remained strong at 1.30x as on March 31, 2023 (PY: 1.12x). The company is projected to incur large size debt funded capex of Rs.670.0 cr in FY24-FY26.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Paper & Paper Products
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

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

Pakka Limited (the name of the company was changed from Yash Papers Limited w.e.f. September 11, 2019 and Yash Pakka Limited w.e.f. July 06, 2023) 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.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	296.60	415.85	310.16
PBILDT	72.84	93.03	68.21
PAT	38.20	51.46	40.07
Overall gearing (times)	0.69	0.50	NA
Interest coverage (times)	7.78	8.36	10.37

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Brickwork has conducted the review on the basis of best available information and has classified Pakka Limited as "Not cooperative" vide its press release date December 27, 2022.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June, 2029	350.53	CARE BBB (RWD)
Fund-based - LT-Working Capital Limits		-	-	-	95.00	CARE BBB (RWD)
Non-fund-based - ST-BG/LC		-	-	-	23.41	CARE A3+ (RWD)

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 2023-2024	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
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)
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)
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)
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)
5	Fund-based - LT-Term Loan	LT	350.53	CARE BBB (RWD)	1)CARE BBB; Stable (06-Apr-23)	1)CARE BBB; Stable (16-Feb-23)	-	-
6	Fund-based - LT-Working Capital Limits	LT	95.00	CARE BBB (RWD)	1)CARE BBB; Stable (06-Apr-23)	1)CARE BBB; Stable (16-Feb-23)	-	-
7	Non-fund-based - ST-BG/LC	ST	23.41	CARE A3+ (RWD)	1)CARE A3+ (06-Apr-23)	1)CARE A3+ (16-Feb-23)	-	-

*Long term/Short term.
#Issuer did not cooperate; based on best available information.

Annexure-3: Detailed explanation of 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]

Annexure-6: List of all the entities consolidated: Not Applicable

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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