RATING RATIONALE

9 Mar 2021

Yash Pakka Ltd.

Brickwork Ratings Assigns Ratings for the Bank Loan Facilities of Rs. 330.00Crs. of Yash Pakka Ltd.

Particulars

Facilities	Amount (Rs. Crs.)	Tenure	Rating*
Fund based	**118.77**	Long Term	**BWR BBB Assigned (Stable)**
Fund based Proposed	**187.82**	Long Term	
Non-Fund Based	**23.41**	Short Term	**BWR A3+ Assigned**
Total	**330.00**	**INR Three Hundred and Thirty Crores Only**	

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

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has assigned a long-term rating of BWR BBB (Stable) and short-term rating of BWR A3+ to the bank loan facilities of Yash Pakka Ltd. (YPL).

The rating positively factors in the extensive experience of promoters, favourable demand outlook for eco-friendly packaging, and YPL's healthy financial risk profile, marked by improvement in profitability margins, and comfortable debt protection metrics. Given the easy availability of raw material (primarily bagasse) in the Eastern Uttar Pradesh region, YPL enjoys a locational advantage. BWR also takes cognizance of cost-effective operations marked by presence of captive power plant and chemical extraction plant which has helped the company earn better margins in this segment. Change in consumer preference worldwide for compostable paper-based packaging solutions to curb use of one-time plastic are expected to remain favourable for the company in the coming years. However, these strengths are partially offset by the stagnant scale of operations, long working capital cycle, and substantial debt-funded capex of Rs 240 Cr which will also entail execution and stabilisation risks. The additional debt on account of proposed capex will lead to moderation of credit profile in the near term. The rating also considers the highly fragmented and competitive nature of the business and seasonality associated with availability of raw material as credit risks.

YPL's outlook is stable led by recovery in financial performance driven by rising demand for eco friendly packaging and higher demand for packaged products which offset the weak performance of Q1FY21 where operations got impacted by Covid-19 led lockdown..

KEY RATING DRIVERS

Credit Strengths:

- **Improved Profitability:** Over the years YPL has established long term relationships with various clients which have been providing repeat orders. Directly or indirectly the company caters to several industry segments including food & packaging, tobacco, FMCG, pharmaceuticals etc. YPL reported improvement in profitability margins on account of benign raw material prices and higher non-operating income. Profit after tax (PAT) and EBITDA margin for the company stood at 10.87% and 21.87% respectively in FY20 (FY19: PAT margins 8.17%, EBITDA margin 19.14%). Return on capital employed (ROCE) for the company improved from 18.34% in FY19 to 20.59% during FY20. Backed by improved performance during Q3FY21, the company reported a topline of Rs. 132 Crs with EBITDA of Rs. 29.50 Crs. Post expansion, the existing as well as the new machinery will be capable of producing finer grade paper and turnaround time in moulded segments is also expected to reduce significantly which will in turn expected to have a positive impact on the profitability margins for the company.

- **Sound credit profile; to moderate led by capex:** YPL also reported considerable improvement in the debt protection metrics with ISCR and DSCR (debt service coverage ratio) at 4.37x and 1.83x respectively in FY20 (FY19: ISCR 2.88x, DSCR 1.48x). Gearing and net leverage for the company stood at 0.84x and 1.70x respectively as at FYE20 (FYE19: TD/TNW 1.27x, Net Debt/EBIDTA – 2.38x). Since YPL is planning a sizable capex of Rs240cr, to be debt-funded to the tune of Rs180cr, some moderation in the hitherto sound credit metrics is expected.

- **Diversified customer and supplier base:** Top 10 customers contributed around 48% of total operating income during FY20 with rest all contributed less than 2% highlighting low dependence on a particular customer for revenue generation. Similar is the case with suppliers as well where top 10 suppliers contributed around 20% of the total purchase during FY20 with all other suppliers contributing less than 2.5% of the total purchase.

- **Synchronised and cost-effective operations: -** The company has integrated operations with paddy husk based captive power plant and chemical recovery plant as well which has helped the company optimise production costs. Further the company has synchronized plant where pulp waste is used to manufacture egg trays. Waste steam from the chemical recovery plant gets used as input to the power plant bringing down the requirement of paddy husk and at the same time low-pressure steam from the power plant is again used as input for paper production plants. So overall the waste production gets minimized which adds to the profitability margins for the company.

- **Changing consumer preference towards environment friendly solutions:** In recent times there is a clearly visible shift in the consumer preference worldwide towards the use of compostable packaging and tableware in place of one time use plastics or styrofoam substitutes. In line with the changing trend the company reported more than 50% increase in revenue from moulded products during Q3FY21 over the corresponding period last year. With the ban on use of one time use plastics in various parts of the world, most of the corporates in fast moving consumer goods and other segments have to look for alternatives and BWR expects YPL to stand benefitted from this changing trend.

Credit Risks:

- **Capex to address the stagnant scale but stabilisation risks to remain -** Since the plants are operational at almost full capacity, scale of operations has remained stagnant over FY17-FY21. The company reported operating income of Rs. 254.18 Crs during FY20 against Rs. 253.42 Crs during FY19. YPL reported revenue of Rs. 132.72 Crs in 9MFY21, partially impacted by Covid-19 induced lockdown. With a capex towards additional capacity of 50,160 TPA, the scale is likely to improve over the medium term, though stabilisation of large capacity may take time.

- **Project execution risks:** Total cost of the project is estimated to be around Rs. 241.77 Cr which will be funded by debt of Rs. 181.32 Crs and rest will be from the promoters either in the form of equity or unsecured loans. The projected capacity is expected to get operationalised starting FY23. Given the size of investment, the majority of which is proposed to be funded by debt, timely completion of the project within the estimated cost remains crucial and will need to be monitored closely. Also the terms and repayment structure of the debt need to be analysed. Since it will take at least 12-15 months to complete the capacity expansion, change in market dynamics over the period will play a key role in the successful ramp up of the enhanced capacity.

- **High inventory cycle, cyclicality in raw material availability and highly competitive nature of the industry:** Since the company is using bagasse which is a waste product from sugarcane, procurement of the raw material is seasonal which happens during the period of November to March every year. YPL has a high inventory cycle of 133 days in FY20 leading to a high conversion cycle of 118 days in FY20. Paper industry is highly fragmented and competitive with a large number of players in the market but the same gets partially mitigated by the large size of the packaging industry where number of players can coexist profitably.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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

RATING SENSITIVITIES

Upward: Funding closure at favourable terms, remarkable improvement in scale of operations via successful and timely capex will be credit positive for the company.

Downward: Cost and time overrun, elongation of working capital cycle, and/or material deterioration in profitability would be credit negative.

LIQUIDITY POSITION - Adequate

Average fund based working capital utilization for the company stood below 50% for the last 12 months ending November 2020 with maximum utilisation of ~60% during the procurement period. Cash Accruals (PAT plus depreciation) to the current portion of long term debt (CPLTD) remained comfortably around 2x during the last two years.

COMPANY PROFILE

Promoted by Shri K. K. Jhunjhunwala and his family members YPL was incorporated on 5 May 1981. After his demise in the year 2005, his son, Mr. Ved Krishna took over the charge. The company is into manufacture of paper for packaging and compostable tableware products for replacing styrofoam and plastic. The company launched an innovative range of compostable tableware products under the brand name 'CHUK'.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY19	FY20
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. In Crs	253.42	254.18
OPBDIT	Rs. In Crs	48.50	55.15
PAT	Rs. In Crs	20.71	27.62
Tangible Net Worth	Rs. In Crs	93.09	116.25
TOL/TNW	Times	1.85	1.18
Current Ratio	Times	1.00	1.11

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED - NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY – CARE in the press release dated 03 February 2021 has reaffirmed the rating at CARE BBB/A3 under Issuer Not Cooperating category.

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal & suspended]

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.)	Current Rating (Year T - 2021)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Amount Outstanding (Rs. Crs)	Type (Long Term/Short Term)	Rating	Date(s)& Rating(S) assigned in year T-1 2020	Date(s) & Rating(s) assigned in Year T-2 2019	Dates(s) & Rating(s) assigned in Year T-3 2018
1	**Fund Based**	118.77	Long Term	BWR BBB (Stable)	-	-	-
2	**Fund Based (Proposed)**	187.82	Long Term		-	-	-
3	**Non-Fund Based**	23.41	Short Term	BWR A3+	-	-	-
	Total	**330.00**		**INR Three Hundred and Thirty Crores Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

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Yash Pakka Ltd

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
1	Term Loan	45.74	-	45.74
2	FITL	2.76	-	2.76
3	Covid Emergency Credit Line	5.54	-	5.54
4	Cash Credit	64.73	-	64.73
5	LC/BG	-	23.41	23.41
6	Fund based Proposed	187.82	-	187.82
	TOTAL	**306.59**	**23.41**	**330.00**
Total	**INR Three Hundred and Thirty Crores Only**			

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