

Rating Update

April 26, 2018 | Mumbai

Kvantum Papers Limited

Update as on April 26, 2018

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

- Fluctuating paper prices
- Private equity infusion
- Capital expenditure (capex) plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL seeks regular updates from companies on the business and financial performance. CRISIL is, however, awaiting adequate information from Kvantum Papers Limited (KPL) which will enable us to carry out the rating review. CRISIL will continue provide updates on relevant developments from time to time on this credit.

CRISIL also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About The Company

KPL manufactures WPP and pulp. Incorporated in 1997, the company has four paper-making machines with capacity of 100,000 tonne per year, and a 16-megawatt cogeneration power plant, in Hoshiarpur, Punjab. KPL also has a chemical recovery plant and a hard-wood pulp street. It uses agriculture-based raw materials, such as wheat straw, kanna grass, and baggase, to produce paper.

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Rating Rationale

July 08, 2017 | Mumbai

Kvantum Papers Limited

FD rating placed on 'Notice of withdrawal'

Rating Action

Total Bank Loan Facilities Rated	Rs.186.29 Crore
Long Term Rating	CRISIL BBB-/Stable (Withdrawal)
Short Term Rating	CRISIL A3 (Withdrawal)

Rs.30 Crore Fixed Deposits	FA-/Stable (Placed on 'Notice of Withdrawal')
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has **withdrawn** its ratings on the bank facilities of Kvantum Papers Limited (KPL) and has placed its rating on the fixed deposits on notice of withdrawal for three years. The ratings have been withdrawn on the company's request and receipt of a no-objection certificate from the bank. The rating action is in line with CRISIL's policy on withdrawal of its bank loan ratings.

CRISIL has relied on publicly available information for the ratings because of lack of cooperation by the company in the surveillance process.

There has been significant improvement in net cash accrual on account of the increase in operating profitability. This follows the setting up of a manufacturing plant to meet raw material requirement, and implementation of various cost-saving measures. Moreover, the company has a comfortable market position, an established distribution network, a diversified customer base, and optimum utilisation of production capacities.

The product mix is diverse, comprising value-added products such as coloured printing paper, azure laid paper, parchment paper, cartridge paper, and high-bulk notebook paper, which offer better realisations. Moreover, there are routine surface-sized and non-surface-sized products. The financial risk profile remains comfortable, driven by a healthy networth and comfortable debt protection metrics. Adequate cash accrual has helped improve the capital structure steadily, despite regular debt-funded capital expenditure (capex). The financial risk profile should remain comfortable, but may be affected if there is any major capex.

Key Rating Drivers & Detailed Description

Strengths

* **Above-average operating efficiency:** That's driven by cost-reduction measures and prudent working capital management. The entire production is against orders, enabling better pricing. Dealers have flexibility to order as per requirement, and customers are supported in terms of product delivery and after-sales services. Film press, top formers, bleaching systems, and wet washing systems are installed for reducing cost. Measures to control cost will lead to higher operating profitability in the near term.

* **Comfortable market position in the writing and printing paper (WPP) segment:** The company is an established player in the agricultural-residue-based WPP industry, with installed capacity of 100,000 tonne per annum. Almost full capacity utilisation and increased sales volume of premium quality paper products such as copier and surface-sized paper resulted in a 15% increase in operating revenue in fiscal 2017.

Weaknesses

* **Susceptibility to cyclical in paper prices, and dependence on agricultural raw materials:** As paper is essentially a commodity, its prices are volatile, resulting in unpredictable profits. Cyclical downturns may result in lower realisations. Demand for WPP may grow 7-8% over the next 3-4 years. However, in the past three years, there has been large capacity addition in the WPP segment. Besides, the cost of power and raw materials have increased. Thus, operating margin of players will remain under pressure in the next two years. Furthermore, 80% of KPL's raw material comprises agricultural residues. The three main raw materials kanna grass, kahi grass, and bagasse are seasonal and have limited availability, leading to high prices. However, high operating efficiency and cost competitiveness will mitigate the risks.

* **Expected muted revenue growth in the absence of capacity addition:** Revenue growth will be marginal over the medium term because of full utilisation of the installed capacity. CRISIL is not aware of the company's capex plan. In the absence of major capacity expansion, revenue growth will be constrained.

Outlook: Stable

CRISIL believes KPL will continue to benefit from its comfortable market position and above-average operating efficiency. The outlook may be revised to 'Positive' if substantial revenue growth and stable profitability lead to higher cash accrual and better liquidity. The outlook may be revised to 'Negative' if low cash accrual, large working capital requirement, or significant capex weakens liquidity.

About the Company

KPL manufactures WPP and pulp. Incorporated in 1997, the company has four paper-making machines with capacity of 100,000 tonne per year, and a 16-megawatt cogeneration power plant, in Hoshiarpur, Punjab. KPL also has a chemical recovery plant and a hard-wood pulp street. It uses agriculture-based raw materials, such as wheat straw, kanna grass, and baggase, to produce paper.

For fiscal 2017, net profit was Rs 60.91 crore on net sales of Rs 607.32 crore, vis-a-vis Rs 24.52 crore and Rs 525.17 crore, respectively, for fiscal 2016.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Crore)	Rating Assigned with Outlook
NA	Bank guarantee	NA	NA	NA	7.50	Withdrawal
NA	Cash credit	NA	NA	NA	35.00	Withdrawal
NA	Corporate loan	NA	NA	Jan-2021	45.00	Withdrawal
NA	Letter of credit	NA	NA	NA	40.75	Withdrawal
NA	Rupee term loan	NA	NA	Jan-2021	28.34	Withdrawal
NA	Term loan	NA	NA	Jan-2021	29.70	Withdrawal
NA	Fixed deposits	NA	NA	NA	30.0	FA-/Stable (Notice of Withdrawal)

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014		Start of 2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fixed Deposits	FD	30	FA-/Stable		No Rating Change		No Rating Change		No Rating Change	15-07-14	FA-/Stable	--
Fund-based Bank Facilities	LT/ST	138.04	Withdrawal		No Rating Change		No Rating Change		No Rating Change	15-07-14	CRISIL BBB-/Stable	CRISIL BBB-/Negative
Non Fund-based Bank Facilities	LT/ST	48.25	Withdrawal		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A3

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	7.5	Withdrawal	Bank Guarantee	7.5	CRISIL A3(Notice of Withdrawal)
Cash Credit	35	Withdrawal	Cash Credit	35	CRISIL BBB-/Stable(Notice of Withdrawal)
Corporate Loan	45	Withdrawal	Corporate Loan	45	CRISIL BBB-/Stable
Letter of Credit	40.75	Withdrawal	Letter of Credit	40.75	CRISIL A3(Notice of Withdrawal)
Rupee Term Loan	28.34	Withdrawal	Rupee Term Loan	28.34	CRISIL BBB-/Stable
Term Loan	29.7	Withdrawal	Term Loan	29.7	CRISIL BBB-/Stable
Total	186.29	--	Total	186.29	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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[Rating Criteria for Paper Industry](#)

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