

## Genus Paper & Boards Limited

November 27, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	153.45	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	45.00	CARE A2 (A Two)	Assigned
<b>Total Facilities</b>	<b>198.45</b> <b>(Rs. One hundred ninety eight crore and forty five lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Genus Paper & Board Limited (GPBL) derive strength from GPBL's experienced promoter group, company's long track record of operations in the kraft paper industry with an established dealer network and diversified customer base. The ratings also take into consideration the comfortable financial risk profile of GPBL marked by low overall gearing and moderate debt coverage indicators. The ratings are, however, tempered due to working capital intensive nature of operations, vulnerability of its profitability margins to the fluctuations in raw material prices as well as foreign exchange rates, exposure to group companies and unassociated businesses, intense competition in the fragmented paper industry and project risk.

Going forward, company's ability to manage raw material price volatility and foreign exchange risk, successful completion of the project within time and cost estimates while generating desired profits will be the key rating sensitivities. Further, any incremental exposure to the group or unassociated businesses will also remain key monitorable.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Experienced promoters and long track record of operations of the company**

GPBL belongs to the 'Kailash' group and is controlled by Mr. Ishwar Chand Agarwal, who has a rich experience of over three decades in the industry. The day to day operations are looked after by his son, Mr. Kailash Chandra Agarwal, who is the Managing Director of GPBL and has an experience of 15 years in the business of power infrastructure, electronics, steel and paper products etc. GPBL has a long track record of more than 22 years over which management has developed a healthy relationship with customers and suppliers and has establish itself as a high quality kraft paper producer.

##### **Established dealer network along with diversified customer base**

GPBL's products are sold through a network of around 15 dealers located in different states of India. The management has established strong relationships with their customers which are reflected in the form of repeated sales to them. Further, the revenue profile of GPBL is diversified with top 10 customers contributing 38% of the revenue from kraft paper in FY18 (refers to the period April 1 to March 31).

##### **Steady operational performance**

The total operating income of GPBL increased by 13% in FY18 on account of increase in sales realization and higher sales volume. On account of the same and decrease in raw material cost, the PBILDT margins also increased to 11.72% in FY18 (PY: 8.42%) and PAT margins increased to 4.26% in FY18 (PY: 2.27%) resulting in higher gross cash accruals. The company reported a total income of Rs. 255.98 cr with a PAT of Rs. 6.52 cr during H1FY19 (refers to the period April 1 to September 30). The profit margins decreased due to ban of usage of pet coke by the government.

##### **Comfortable financial risk profile**

GPBL has a comfortable financial risk profile as reflected by a low overall gearing and healthy debt servicing indicators. The overall gearing slightly moderated to 0.30x as on March 31, 2018 (PY: 0.24x) due to higher outstanding working capital limits and term loan. The total debt to GCA stood moderate at 3.83x as on March 31, 2018 (PY: 4.15x) and interest coverage remained healthy at 6.74x in FY18 (PY: 4.40x).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Key Rating weaknesses****Working capital intensive nature of operations**

The working capital cycle of GPBL improved and stood moderate at 48 days as on March 31, 2018 (PY: 60 days). The improvement in working capital cycle was largely on account of increase in creditors period. The limit utilization of fund based limits remained moderate at 77% for trailing 12 month period ended August 2018. GPBL had free cash of Rs. 0.50 cr as on March 31, 2018 (PY: Rs. 4.73 cr).

**Project risk**

GPBL is planning to undertake a capital expenditure to enhance its production facility at the Moradabad plant and the total project cost is expected at around Rs. 111 cr which is to be financed through a term loan of Rs. 85.00 cr and balance Rs. 26 cr through the internal accruals and is expected to be completed during H2FY20. Going forward, the completion of the project within time and cost estimates and achievement of desired income and profits will remain a key monitorable.

**Exposure to raw material price volatility and foreign exchange risk**

The major raw material for GPBL's product is waste paper which is a globally traded commodity and its price is volatile. The raw material cost constituted 74.75% of the total cost of sales for FY18 (PY: 78.66%), thus exposing GPBL to the volatility in the prices of raw materials which has a bearing on its profitability margins. Also, the raw material is procured domestically and from foreign supplier (55% of total raw material cost in FY18) which exposes GPBL to foreign exchange risk. GPBL does not follow any concrete hedging policies which may affect the GPBL's profit margins.

**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.

**Exposure to the group companies and unassociated businesses**

GPBL has invested in its group companies regularly in the form of loans and advances and investments. As on March 31, 2018, GPBL had investments worth Rs. 72.45 cr (PY: 38.85 cr) in the form of equity instruments, preference shares and debentures. Apart from this, GPBL had also extended loans and advances worth Rs. 72.17 cr as on March 31, 2018 (PY: Rs. 69.87 cr). Any further increase in these exposures would have a bearing on the company's credit profile and remains a key monitorable.

**Prospects**

The consumption of paper board (accounting for nearly 52% of the total industry demand in FY17) is expected to grow at a CAGR of 8.9% and reach 11.4 million tonnes in FY20 due to factors such as increasing urbanization, requirement of better quality packaging of FMCG products marketed through organized retail, and increasing preference for ready-to-eat foods.

**Analytical approach:**

Standalone

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)

**About the Company**

GPBL was initially incorporated as Genus Paper Products Limited (GPPL) was incorporated in 1996. Pursuant to the Scheme of Arrangement which provided for the amalgamation of 'Genus Paper Products Limited (GPPL, transferor company) into 'Genus Power Infrastructures Limited' (GPIL) and demerger of 'Non Power Infrastructure Undertaking/Business' of GPIL into Genus Paper & Boards Limited (GPBL, the resulting company) w.e.f. April 01, 2011, the entire business of GPPL has been transferred to GPBL. In addition, the investment business of GPIL was also transferred to GPBL. GPBL is primarily engaged in the manufacturing of kraft paper and steel ingots with its manufacturing facilities located at Moradabad, Uttar Pradesh with installed capacity of 140,000 MTPA for kraft paper and 23,760 TPA for mild steel ingot as on March 31, 2018. The company is also operating a plant on lease in Kashipur with a capacity of 75,000 MTPA as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	310.03	350.36
PBILDT	26.09	40.98
PAT	7.04	14.94
Overall gearing (times)	0.24	0.30
Interest coverage (times)	4.41	6.74

A: Audited

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr. Ajay Dhaka

Tel: 011-45333218

Mobile: 8826868795

Email: [ajay.dhaka@careratings.com](mailto:ajay.dhaka@careratings.com)

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**About CARE Ratings:**

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## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2027	114.45	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	39.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A2

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE BBB- (12-Oct-16)	1)CARE BBB- (13-Jan-16)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE BBB- (12-Oct-16)	1)CARE BBB- (13-Jan-16)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (30-Jan-18)	1)CARE A3 (12-Oct-16)	1)CARE A3 (13-Jan-16)
4.	Fund-based - LT-Term Loan	LT	114.45	CARE BBB+; Stable	-	-	-	-
5.	Fund-based - LT-Cash Credit	LT	39.00	CARE BBB+; Stable	-	-	-	-
6.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A2	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
 Cell: + 91 98190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 91 98196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 91 99675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 91 98209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 851111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

**HYDERABAD**

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)