

September 16, 2021

Bahl Paper Mills Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits/Cash Credit	13.00	13.00	[ICRA]A+(Stable); Reaffirmed
Fund-based Limits/Term loan	1.00	1.00	[ICRA]A+(Stable); Reaffirmed
Non-fund Based Limits	1.00	1.00	[ICRA]A1; Reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation is driven by Bahl Paper Mills Ltd's (BPML) healthy financial risk profile and liquidity position. Given the diversified product profile comprising duplex board, kraft paper and poster paper, BPML can cater to various diversified end-user industries such as food, pharmaceutical, fast moving consumer goods (FMCG) and e-commerce. This has primarily insulated the company's performance from slowdown in a particular industry, as well as the adverse impact of the Covid-19 pandemic. The ratings continue to factor in BPML's long track record of over three decades in the paper industry, backed by significant experience of its promoters in the kraft paper industry and its established distribution network. ICRA notes that the ongoing capex to increase the capacity of duplex board augurs well for its future growth. ICRA also expects BPML to undertake further capex as prevalent in the paper industry and may utilise the existing free cash, apart from availing debt. The impact of the same on BPML's credit metrics will be a rating sensitivity.

The ratings, however, remain constrained due to its moderate scale of operations compared to other players in the industry. BPML's profitability remains exposed to fluctuations in waste paper prices, which have remained volatile in the last few years. Moreover, intense competition in the duplex/kraft paper segment owing to the presence of many unorganised players results in pricing pressure. Further, the company has high working capital intensity owing to its predominantly high inventory requirement.

The Stable outlook on the [ICRA]A+ reflects that the company will continue to benefit from the diversified end-user industries and stable demand outlook.

Key rating drivers and their description

Credit strengths

Vast experience of promoters in paper industry – The company was incorporated in 2006 for manufacturing duplex board and poster paper. The promoters have been involved in the business for more than 30 years.

Diversified product profile with presence in kraft paper, duplex board and poster paper; established presence in value-added paper – The company's product portfolio is well diversified. It manufactures duplex board, kraft paper and poster paper. It produces various categories of coated duplex board, which is extensively used in the printing and packaging industry. BPML is also involved in manufacturing high-grade kraft paper and poster paper, although ~81% of the total sales were from duplex board in FY2021.

Diversified user industry mitigates risk of slowdown in demand from particular industry and favourable demand prospects

– The company manufactures specialised kraft paper of burst factor (BF) between 16 and 28 and duplex board between 250 grams per square metre (GSM) and 600 GSM. The end-user industries include pharmaceuticals, food chains, shoe, cosmetics, toiletries, cigarettes, liquor, FMCGs, etc. Hence, the presence of multiple user industries mitigates the risk of slowdown in demand from any particular industry. Further, the company has largely been shielded from the Covid-19 second wave as demand was not impacted.

Healthy financial risk profile – BPML's capital structure and coverage indicators remained healthy amid zero debt levels. The credit profile has been further strengthened by healthy profitability levels and significant free cash levels of Rs. 108 crore as on March 31, 2021. Its profitability is supported by the presence of the captive power plant and the company's ability to pass on the increase in raw material cost, to an extent, to its buyers.

Credit challenges

Moderate scale of operations in a highly fragmented industry characterised by intense competition – The company operates in a highly fragmented industry and faces intense competition, which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Its scale is moderate as compared to the big players operating in the same industry. BPML achieved Rs. 313 crore of revenue in FY2021, which was ~12% lower than the revenue achieved in FY2020. However, as the capacity utilisation of both the plants remained healthy, the company has invested in increasing the capacity of duplex board by 25% by the end of FY2022. BPML is expected incur significant capital expenditure in future, which is likely to be funded by a mix of debt and its own funds.

High working capital intensity – BPML operates in a working capital-intensive industry with high inventory requirements. Its working capital intensity deteriorated to 35% in FY2021 from 25% in FY2020 largely on account of higher inventory, due to high waste paper prices and the company's strategic decision to build inventory. However, these requirements have been funded internally.

Vulnerability of profitability to adverse fluctuations in raw material prices – The company receives order at the beginning of the month, based on which it purchases waste paper. Its margins are mainly affected by the raw material price fluctuation, which in turn impacts the sales realisations. Any adverse movement in raw material prices can negatively impact the company's margins, though it was able to effectively manage the same in FY2021.

Liquidity position: Strong

The company's liquidity position is **strong** and is largely driven by healthy cash and liquid investments of Rs. 108 crore as on March 31, 2021. Its liquidity is further bolstered in the absence of any long-term repayment liability and cushion in its working capital facility.

Rating sensitivities

Positive factors – ICRA could upgrade BPML's ratings if the company demonstrates a significant improvement in its operating income while maintaining a healthy financial risk profile and liquidity position.

Negative factors – Negative pressure on BPML's ratings could arise if there is a decline in profitability, or any debt-funded capex leads to Total debt/OPBIDTA above 1.80 times on a sustained basis. Any sizeable capital expenditure adversely impacting the credit metrics might also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

BPML was incorporated in 2006 and manufactures duplex boards, kraft paper and poster paper. It has an installed capacity to manufacture 82,500 metric tonnes per annum (MTPA) of duplex boards and has a combined capacity of 16,500 MTPA of kraft paper and poster paper at its manufacturing unit in Kashipur, Uttarakhand. The company's day-to-day management is taken care of by Mr. Naresh Jhanjhi, who has experience of more than 30 years in the paper industry.

Key financial indicators (Audited/Provisional)

Consolidated	FY2019 (A)	FY2020 (A)	FY2021 (P)
Operating Income (Rs. crore)	333.28	355.70	313.47
PAT (Rs. crore)	44.87	54.28	56.40
OPBDIT/OI (%)	19.95%	22.71%	23.88%
RoCE (%)	34.42%	33.60%	28.19%
Total Outside Liabilities/Tangible Net Worth (times)	0.21	0.16	0.15
Total Debt/OPBDIT (times)	0.11	0.00	0.00
Interest Coverage (times)	90.17	289.79	541.18
DSCR (times)	78.11	221.45	482.37

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No.	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2021	FY2020	FY2019
					16-Sep-21	24-Dec-20	1-Oct-19	14-Sep-18
1	Cash Credit	Long Term	13.0	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
2	Term Loan*	Long Term	1.0	0.0	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)
3	Non-fund Based	Short Term	1.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Amount in Rs. crore

*Term loan amount outstanding entirely paid

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Limits/Cash Credit	Simple
Fund-based Limits/Term loan	Simple
Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits/Cash Credit	-	NA	-	13.00	[ICRA]A+(Stable)
NA	Fund-based Limits/Term loan*	-	NA	-	1.00	[ICRA]A+(Stable)
NA	Non-fund Based Limits	-	NA	-	1.00	[ICRA]A1

Source: Company

*Term loan amount outstanding entirely paid

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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