

September 05, 2023

Bahl Paper Mills Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	13.00	13.00	[ICRA]A+(Stable); reaffirmed
Long-term Fund-based – Term Loan	1.00	1.00	[ICRA]A+(Stable); reaffirmed
Short-term – Non-fund Based	1.00	1.00	[ICRA]A1; reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation reflects ICRA's opinion that Bahl Paper Mills Ltd.'s (BPML) financial risk profile will remain healthy led by strong debt coverage metrics and liquidity profile. Recent capacity addition in the duplex board segment is expected to support the company's growth prospects amid a steady demand scenario. 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 duplex board/kraft paper industry and the company's established distribution network. Given the diversified product profile of duplex board, kraft paper and poster paper, BPML can cater to diversified end-user industries such as foods, pharmaceuticals, fast moving consumer goods (FMCG) and e-commerce.

The ratings, however, remain constrained by the exposure of BPML's profitability to fluctuations in wastepaper prices as well as pricing trends of the final products, which have remained volatile in the last few years. Moreover, intense competition in the duplex/kraft paper segment owing to many unorganised players in the field results in pricing pressures. ICRA, however, notes the installation of a turbine and non-recyclable solid waste (NRSW) boiler, which has significantly increased captive power production and, thus, will result in cost savings in the present fiscal. Moreover, the ratings factor in the consistently improving but relatively moderate scale of operations. Further, the company has high working capital intensity owing to its predominantly high inventory requirements. ICRA also notes the recent investments in non-core assets, which will remain a rating monitorable.

The Stable outlook on the long-term rating reflects that the company will benefit from the recent capacity additions, its ability to cater to diversified end-user industries and the 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 healthy capacity utilisation levels; established presence in value-added paper supports margin profile – 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 ~79% of its total sales came from duplex board in FY2023, which is generally a more value-added product and generates better margins than other products.

Diversified end-user sectors mitigate risk of demand slowdown in any particular industry – The company manufactures specialised kraft paper of burst factor (BF) between 16 and 28, and duplex boards between 250 grams per square metre (GSM) and 600 GSM. BPML's end-user industries include pharmaceuticals, food chains, footwear, cosmetics, toiletries, cigarettes, liquor, FMCG, etc. BPML's end-presence across sectors insulates it from downturn in any one specific industry.

Healthy financial risk profile – BPML has been consistently increasing its revenue over the years from Rs. 333 crore in FY2019 to Rs. 607 crore in FY2023 and ~Rs. 164 crore already in Q1 FY2024. Its capital structure and coverage indicators remained healthy with minimal debt levels. The credit profile is further supported by healthy cash accruals and liquidity despite moderation in margins amid a modest demand-supply scenario. In the absence of any major capex or debt raising plans, ICRA expects coverage metrics to remain at comfortable levels in the near to medium term.

Credit challenges

Vulnerability of profitability to adverse fluctuations in raw material and output prices – The company receives orders at the beginning of the month, based on which it purchases wastepaper. Any adverse movement in raw material prices can negatively impact the company's margins, as witnessed through moderation in margins in FY2023. Further, the price of other inputs like rice-husk for steam generation for the boiler also impacts the profitability. Raw material price fluctuation as well as demand-supply scenario impacts the sales realisations. In FY2023 and early FY2024, the company faced pressure on sales realisations as well as certain input costs related to power generation, which have impacted its margin profile. However, with expansion of captive power plant, cost structure is expected to improve, going forward.

Relatively moderate scale of operations in a 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. While the scale has increased over the years, the same remains moderate compared to other large, organised players.

High working capital intensity – BPML operates in a working capital-intensive industry with high inventory requirements. However, BPML's working capital intensity improved to 24% in FY2023 from 30% in FY2022 on account of better inventory management. ICRA notes that these requirements are funded internally.

Deployment of funds into non-core assets – BPML has been investing in non-core assets including real estate. Further, the promoters have recently forayed into sugar milling/ethanol business in FY2023, which may require further investment that could be routed through BPML as well. Additional investments from the company and returns on the same will remain a key monitorable for the ratings.

Liquidity position: Strong

The company's liquidity position is **strong** and is largely driven by healthy free cash and liquid investments of ~Rs. 96 crore (as on March 31, 2023). Its liquidity is further bolstered by ~Rs. 69 crore of overdraft facilities availed against liquid securities, which remain largely unutilised.

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 if any debt-funded capex leads to Total Debt/OPBIDTA above 1.80 times on a sustained basis. Any sizeable capital expenditure or investments towards illiquid assets, 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

Incorporated in 2006, BPML was established by Mr. Naresh Jhanjhi. It is engaged in manufacturing various categories of coated duplex board that are extensively used in the printing and packaging industry (for packaging purposes in the FMCG, pharma, readymade garments, and automobile ancillary industries, etc). The company also manufactures high-grade duplex boards that find use in the making of wedding cards, visiting cards and notebook covers, etc. It also manufactures kraft paper and poster papers, which find use in bakeries and food chains, grocery bags, printing calendars, bangle packing, etc. The company's manufacturing unit is at Kashipur, Uttarakhand, with an installed production capacity of 156,000 metric tonne per annum (MTPA) (132,000 MTPA for duplex board and 24,000 MTPA for kraft and poster papers).

Key financial indicators (audited)

BPML Standalone	FY2021	FY2022	FY2023*
Operating income	318.3	483.9	607.1
PAT	56.0	85.8	81.3
OPBDITA/OI	24.9%	24.0%	18.2%
PAT/OI	17.6%	17.7%	13.4%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.2
Total debt/OPBDITA (times)	0.0	0.1	0.1
Interest coverage (times)	573.9	835.6	585.9

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 05, 2023	Nov 23, 2022	Sep 16, 2021	Dec 24, 2020
1 Cash Credit	Long-term	13.0	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+ (Stable)
2 Term Loan*	Long-term	1.0	0.0	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[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 entirely paid off

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based - Cash Credit	Simple
Long Term - Fund Based - Term Loan	Simple
Short Term - Non-Fund Based	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	13.00	[ICRA]A+(Stable)
NA	Term Loan*	-	NA	-	1.00	[ICRA]A+(Stable)
NA	Non-Fund Based	-	NA	-	1.00	[ICRA]A1

Source: Company

*Term loan amount entirely paid off

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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