May 19, 2023

Vatsalya Paper Industries LLP: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loans	19.05	15.38	[ICRA]BB-(Stable); reaffirmed
Fund-based – Cash credit	32.00	32.00	[ICRA]BB-(Stable); reaffirmed
Fund-based – Working capital term loan	14.00	14.00	[ICRA]BB-(Stable); reaffirmed
Non-fund based – Bank guarantee	1.70	1.70	[ICRA]A4; reaffirmed
Unallocated limits	-	3.67	[ICRA]BB-(Stable)/[ICRA]A4; reaffirmed
Total	**66.75**	**66.75**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation continues to factor in the vast experience of Vatsalya Paper Industries LLP's (VPIL) partners in the kraft paper manufacturing industry, its healthy capacity utilisation levels leading to scale-up of operations over the years and location-specific advantage of being close to the port (given its sizeable imports).

The ratings, however, remain constrained by the vulnerability of profit margins, which remain susceptible to volatility in raw material (primarily wastepaper & coal) prices, given the limited ability of the company to pass on the same to the final customer. The ratings are also constrained by customer concentration risk and dependence on a single product category (kraft paper manufacturing). Also, the firm has limited pricing power on account of its presence in the highly fragmented and competitive industry. ICRA also notes that VPIL, being a partnership firm, remains exposed to capital withdrawal risks.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that VPIL will continue to benefit from the experience of its partners, the strategic location of its plant near ports and the current favourable demand scenario of kraft paper.

Key rating drivers and their description

Credit strengths

Vast experience of partners in manufacturing operations and paper industry – Mr. Ankit Dalmia, founder of VPIL and the principal partner, has more than ten years of experience in the Kraft paper manufacturing industry through his association with Sankalp Paper Industries Pvt. Ltd.

Locational advantage and repetitive orders from customers – The firm imports a majority of wastepaper requirements and owing to its proximity to the Kandla and Mundra ports, it enjoys a location-specific advantage, which helps reduce sourcing costs. Further, apart from selling to packaging industry players, the firm sells kraft paper to textile players in Gujarat and Maharashtra. Hence, being located at Surat, the textile hub in Gujarat, benefits VPIL in terms of proximity to key customers and developing strong relationships with customers, reflected in its history of repeat orders.

Credit challenges

Moderate financial risk profile – The financial profile of VPIL is characterised by a high gearing of 5.3 times as on March 31, 2023 (as per provisional figures) owing to the moderate net worth base. The coverage indicators also remained modest with

TD/OPBITDA of 4.9 times, TOL/TNW of 6.8 times in FY2023 owing to high debt levels. Interest cover also remained moderate at 1.8 times in FY2023. Going forward, the company's coverage indicators are expected to remain modest, given the planned debt-funded capex plans (related to windmill capacity installation) and moderate profitability levels.

Susceptibility of profitability to raw material prices and forex fluctuations – Wastepaper (the key raw material) accounts for around 60% of the total costs, followed by power & fuel costs at ~15%. Hence, the profitability of the firm remains exposed to volatility in prices of wastepaper and coal, given its limited power to pass on the costs to its end customers. Also, the firm imports the majority of the wastepaper while it sells in the domestic market only, leading to susceptibility of profitability to any adverse foreign exchange fluctuations in the absence of proper hedging mechanism in place.

Concentration risk associated with customers and dependence on single product – The customer concentration risk remained high, given its top-10 customers driving ~60% of its revenue in FY2023, wherein the top-three customers contributed ~30% to the revenue. Also, the firm's operations are not diversified and highly dependent on a single product viz., kraft paper, which exposes it to product concentration risk.

Risks related to partnership nature of firm – VPIL's constitution as a limited liability partnership (LLP) exposes it to the inherent risk of significant withdrawals by the partners, which can have an adverse impact on the capital structure. There have been consistent withdrawals over the years, leading to restrictions in expansion of net worth.

Liquidity position: Stretched

The liquidity of VPIL remained stretched, marked by low free cash and bank balance as on March 31, 2023, and average ~94% utilisation of fund-based working capital limits during the last 12 months, ended March 2023. Further, the firm has sizeable debt repayments from FY2023 onwards, which largely remains matched with cash accruals in the near to medium term. Nevertheless, the presence of sizeable unsecured loans from promoters supports the liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade VPIL's ratings, if the entity can report steady revenue growth along with improvement in profitability levels, leading to overall improvement in debt protection metrics and liquidity profile.

Negative factors – Pressure on VPIL's ratings could arise, if there is any substantial decline in revenue or profitability, or any major debt-funded capex or material capital withdrawals, impacting its liquidity and overall financial position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of Vatsalya Paper Industries LLP.

About the company

Vatsalya Paper Industries LLP (VPIL), established in March 2017, is a limited liability partnership (LLP) promoted by Mr. Ankit Dalmia and Vinay Fashion LLP to manufacture kraft paper. The firm manufactures kraft paper with burst factor (BF) range of 14-28 at its plant in Surat, Gujarat. It commenced its operations in September 2018 with an installed capacity of 72,000 MTPA, which was enhanced to 90,000 MTPA in FY2021.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	267.9	266.3
PAT	6.4	1.8^
OPBDIT/OI	5.2%	5.0%
PAT/OI	2.4%	0.7%^
Total outside liabilities/Tangible net worth (times)	6.6	6.8
Total debt/OPBDIT (times)	6.1	5.9
Interest coverage (times)	2.1	1.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional data ^PBT for FY2023*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 19, 2023	May 25, 2022	-	Feb 18, 2021
1	Fund based- Term Loans	Long-Term	15.38	15.38	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)
2	Fund based- Cash Credit	Long-Term	32.00	-	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)
3	Fund based- Working Capital Loans	Long-Term	14.00	14.00	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
4	Non- Fund based Bank Guarantee	Short-Term	1.70	-	[ICRA]A4	[ICRA]A4	-	[ICRA]A4
5	Unallocated Limits	Long-Term/Short Term	3.67	-	[ICRA]BB- (Stable)/ [ICRA]A4	-	-	[ICRA]BB- (Stable)/ [ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund Based- Term Loan	Simple
Long-Term Fund Based- Cash Credit	Simple
Long-Term Fund Based- Working Capital Term Loan	Simple
Long-Term Non-Fund Based- Bank Guarantee	Simple
Long-term/ Short -term – Unallocated Limits	Not Applicable

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
-	Term Loan	FY2018	NA	FY2026	15.38	[ICRA]BB- (Stable)
-	Cash Credit	NA	NA	NA	32.00	[ICRA]BB- (Stable)
-	Bank Guarantee	NA	NA	NA	1.70	[ICRA]A4
-	Working capital Term Loan	FY2022	NA	FY2027	14.00	[ICRA]BB- (Stable)
-	Unallocated Limits	NA	NA	NA	3.67	[ICRA]BB-(Stable)/[ICRA]A4

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Roshan Dugar
+91 20 6606 9924
roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches