

August 14, 2024

## Vatsalya Paper Industries LLP: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	15.38	10.05	[ICRA]BB- (Stable); reaffirmed
Long-term Fund-based – Cash credit	32.00	32.00	[ICRA]BB- (Stable); reaffirmed
Short-term Non Fund-based – Bank Guarantee	1.70	1.70	[ICRA]A4; reaffirmed
Long-term Fund-based – Working capital term loan	14.00	11.66	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term – Unallocated limits	3.67	33.42	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed/ assigned for enhanced amount
<b>Total</b>	<b>66.75</b>	<b>88.83</b>	

\*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 and location-specific advantage of being close to the port (given the sizeable imports).

The ratings, however, remain constrained by the vulnerability of profit margins, which remain susceptible to volatility in raw material (primarily wastepaper and coal) prices, given the limited ability of the company to pass on the same to the final customer. The ratings are also constrained by the product concentration risk with dependence on a single product category (kraft paper manufacturing). ICRA also notes that the entity is planning a debt-funded capex for installing solar power plants to cut its power cost, which is likely to be commissioned by the last quarter of FY2025. Though reduction in power cost is expected to support the margins, the debt protection metrics are likely to witness pressure in the near term because of the largely debt-funded project. 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 the capital withdrawal risk.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that VPIL will continue to benefit from the resourcefulness of its partners, the strategic location of its plant near ports and steady demand 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 the major part of wastepaper requirements and owing to its proximity to Kandla and Mundra ports, it enjoys location-specific advantage, which helps reduce sourcing costs. Apart from selling to packaging industry players, the firm sells kraft paper to textile players in Gujarat and Maharashtra. As it is located in Surat, the textile hub of Gujarat, VPIL benefits from proximity to key customers and developing strong relationships with customers, which is reflected in its history of repeat orders.

## Credit challenges

**Modest financial risk profile** – The financial profile of VPIL remains modest with volatile profitability levels and subdued debt protection indicators. The company’s capital structure also continues to remain leveraged, as reflected in its gearing of 5.1 times as on March 31, 2024 (as per provisional figures) owing to the low net worth base. Going forward, the company’s coverage indicators are expected to be constrained, given the envisaged debt-funded capex plans (related to solar power plant) of ~Rs. 36 crore, which would be largely funded by external debt. The capex is expected to be completed by the last quarter of FY2025, the full benefits of which would only be witnessed from FY2026. Timely completion of capex and generation of commensurate return from the same will remain a key monitorable.

**Susceptibility of profitability to raw material prices and forex fluctuations** – Wastepaper (the key raw material) accounts for around 70% of the total costs, followed by power and fuel costs at ~18%. 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. The firm imports a major part 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 dependence on single product** – The product concentration risk remained high, given the firm’s low diversification and high dependence on a single product, kraft paper.

**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 the net worth. However, in the last few fiscals the withdrawals have been limited and is expected to remain so in the near term on account of the capex.

## Liquidity position: Stretched

The liquidity profile of VPIL remained stretched, marked by low free cash and bank balance as on March 31, 2024. The average utilisation of fund-based working capital limits stood at ~95% during the last 12 months, ended in June 2024. Further, the firm has sizeable debt repayments in FY2025-26, which are likely to be tightly matched with cash accruals. The near-term capex for the solar project is likely to be funded by ~87% debt and the rest by own funds/internal accruals. However, the liquidity is supported by the company’s demonstrated track record of infusion of sizeable need-based unsecured loans in business, whenever required. The unsecured loans stood at Rs. 14.31 crore as of March 31, 2024.

## 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	<a href="#">Corporate Credit Rating Methodology</a>
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 an 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 operations in September 2018 with an installed capacity of 72,000 MTPA, which was enhanced to 90,000 MTPA in FY2021.

## Key financial indicators

LTHL Consolidated	FY2023	FY2024*
Operating income	263.9	217.8
PAT	-8.1	0.5
OPBDIT/OI	1.0%	5.6%
PAT/OI	-3.1%	0.2%
Total outside liabilities/Tangible net worth (times)	14.1	6.6
Total debt/OPBDIT (times)	28.7	5.7
Interest coverage (times)	0.4	1.7

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current (FY2025)			Chronology of rating history for the past 3 years					
		Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long Term	10.05	Aug 14, 2024	[ICRA]BB-(Stable)	May 19, 2023	[ICRA]BB-(Stable)	May 25, 2022	[ICRA]BB-(Stable)	-	-
Cash credit	Long Term	32.00	Aug 14, 2024	[ICRA]BB-(Stable)	May 19, 2023	[ICRA]BB-(Stable)	May 25, 2022	[ICRA]BB-(Stable)	-	-
Non Fund-based – Bank Guarantee	Short Term	1.70	Aug 14, 2024	[ICRA]A4	May 19, 2023	[ICRA]A4	May 25, 2022	[ICRA]A4	-	-
Fund-based – Working capital term loan	Long Term	11.66	Aug 14, 2024	[ICRA]BB-(Stable)	May 19, 2023	[ICRA]BB-(Stable)	May 25, 2022	[ICRA]BB-(Stable)	-	-
Unallocated limits	Long Term/Short Term	33.42	Aug 14, 2024	[ICRA]BB-(Stable)/[ICRA]A4	May 19, 2023	[ICRA]BB-(Stable)/[ICRA]A4	May 25, 2022	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – Cash credit	Simple
Short-term Non Fund-based – Bank Guarantee	Very simple
Long-term Fund-based – Working capital term loan	Simple
Long-term/Short-term – Unallocated limits	NA

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	Long-term Fund-based – Term loan	FY2018	NA	FY2026	10.05	[ICRA]BB- (Stable)
NA	Long-term Fund-based – Cash credit	NA	NA	NA	32.00	[ICRA]BB- (Stable)
NA	Short-term Non Fund-based – Bank Guarantee	NA	NA	NA	1.70	[ICRA]A4
NA	Long-term Fund-based – Working capital term loan	FY2022	NA	FY2027	11.66	[ICRA]BB- (Stable)
NA	Long-term/Short-term – Unallocated limits	NA	NA	NA	33.42	[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**

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