

October 30, 2024

Venkatalakshmi Paper and Boards Private Limited: 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 | 18.82 | 24.00 | [ICRA]BB (Stable); reaffirmed and assigned for enhanced amount |
| Long Term-Fund Based-Cash Credit | 36.00 | 36.00 | [ICRA]BB (Stable); reaffirmed |
| Unallocated | 0.18 | 3.00 | [ICRA]BB (Stable); reaffirmed and assigned for enhanced amount |
| Total | 55.00 | 63.00 | |

Rationale

The rating on the bank lines of Venkatalakshmi Paper and Boards Private Limited (VPBPL) considers the long track record of the company's operations, and its established relationships with reputed clients in the paper industry. The rating also factors in the reputed promoter profile and established track record of financial support extended to the company in the past. In FY2024, the company's revenue declined by ~18%, despite a ~6% growth in sales volume owing to a sharp correction in realisations, given the moderation in international newsprint paper prices and intense competition from imports. This resulted in a moderation in the company's operating margin to 9.5% in FY2024 from 12.7% in FY2023. However, given the steady realisations and healthy demand, the company's revenues are expected to recover by 8-12% in FY2025. Moreover, the company has installed a new 5.2-MW captive solar power plant to cater to its power consumption, which is expected to improve VPBPL's margin, going forward. Given the moderation in margins and debt-funded capex towards solar power plant, the company's debt metrics moderated in FY2024 with total debt/OPBITDA increasing to 4.7 times. However, with the expected improvement in revenues and earnings, its debt metrics are likely to improve, going forward.

The rating is constrained by VPBPL's moderate financial risk profile and a stretched liquidity position. The company's ability to improve its liquidity will remain a key monitorable. The ratings also factor in the stiff competition in the paper industry and the vulnerability of VPBPL's profitability to volatility in raw materials, forex and fuel prices. The rating also considers the concentration risks with the top three customers contributing ~47% to revenues and the newsprints segment accounting for a significant portion of the revenues.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that VPBPL will continue to benefit from the strong relationship with its customers, resulting in healthy order inflows, leading to improved revenues and earnings.

Key rating drivers and their description

Credit strengths

Long standing track record of operations and reputed promoter profile – The company commenced operations in 1986 and was earlier a part of the Amaravathi Papers and Boards Group, before being taken over by Mr. R. Venkatapathy in December 2014. At present, the day-to-day operations of the company are managed by his grandson, Mr. Rahul Narendran, Managing Director, an MBA from the UK. The promoter's commitment in the business and the company's long presence in the paper industry support its overall business profile.

Reputed clientele – The company supplies to well-known newspaper players like Dinamalar, Malaimalar, Daily Thanthi and other major dailies. VPBPL is the sole supplier for Malai Malar. For Dinamalar, the company caters to Trichy and Vellore circles

and for Daily Thanthi, the company supplies to almost all the centres and caters to 20% of their needs. It has been supplying paper for lottery printing to Dhana Impex since FY2021. Dhana Impex accounted for 19.4% (16.2% in FY2023) of the company's sales in FY2024. The company caters to ~70% of Dhana Impex's requirements.

Credit challenges

Concentration related risks – VPBPL's top three customers contributed ~47% to revenues in FY2024 and a significant portion of the revenues was derived from the newsprints segment. The newsprint division contributed 90% to the revenues in FY2024 against ~78% in FY2022. The concentration in this segment is set to continue as the company has converted its Unit-3, manufacturing Kraft paper, into newsprints. The concentration risk is also set to be driven by increased orders from the existing clients and acquisition of new clients in the newsprint space.

Susceptibility of profitability to raw material prices and realisations – Wastepaper (the key raw material) accounts for 55-60% of the total costs, followed by power and fuel costs at ~20%. Hence, the profitability of the firm remains exposed to the volatility in wastepaper and coal prices, given its limited power to pass on the increased costs to its end-customers. The company sources wastepaper both from the domestic markets (65%) as well as through imports (35%), exposing the company to forex fluctuations. Its earnings also remain susceptible to international newsprint prices. Increased competition from imported newsprint paper and low international prices have led to decrease in realisations, which in turn resulted in a decline in revenues by ~18% to Rs. 191.0 crore (Rs. 232.2 crore in FY2023) and margins to 9.5% (12.7% in FY2023) in FY2024.

Intensely competitive and fragmented industry – The paper manufacturing industry is highly fragmented with presence of a large number of players, resulting in low pricing power to players like VPBPL due to its small scale.

Working capital intensive nature of operations – The company's inventory days remained high at 139 in FY2024. Accordingly, the working capital intensity was high at ~27.6% (NWC/OI) as on March 31, 2024. The high working capital intensity can be largely attributed to the higher inventory holding levels as the company generally holds 3 to 4 months of inventory to cushion any impact of increase in raw material prices.

Liquidity position: Stretched

VPBPL's liquidity position is stretched, as reflected in high utilisation of working capital limits. The average utilisation stood at ~99% over the 12-month period ending in September 2024, and low cash balances. The cash accruals are expected to remain adequate against the debt repayment scheduled in FY2025. The company does not have any major debt-funded capex. The established track record of unsecured loan infusion by the promoters provides comfort to some extent. The unsecured loans stood at Rs. 22.0 crore as on March 31, 2024.

Rating sensitivities

Positive factors – ICRA could upgrade VPBPL's rating if there is sustained growth in revenues and earnings, coupled with a material improvement in the liquidity position.

Negative factors – Pressure on VPBPL's rating could arise if there is a substantial decline in revenues and operating margins, resulting in lower cash flows on a sustained basis. Elongation of the working capital cycle could also trigger a rating downgrade. Specific metric that could result in a rating downgrade includes TD/OPBDITA of above 3.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | The assigned ratings are based on the issuer's standalone financial statements. |

About the company

Venkatalakshmi Paper and Boards Private Limited (VPBPL), established in 1986, manufactures newsprint, tissue paper, calendar paper, poster paper, Kraft and Ribbed Kraft from wastepaper. The company was earlier known as V.G. Paper and Boards and was a part of Amaravathi Papers and Boards Group, based out of Tirupur (Tamil Nadu). It was acquired by Mr. R. Venkatapathy in December 2014 and is now managed by his grandson, Mr. Rahul Narendran. As on September 30, 2024, VPBPL has an installed capacity of 36,000 MTPA of newsprint paper (Unit-1), 14,600 MTPA of tissue paper/Ribbed Kraft (Unit-2) and 18,250 MTPA of newsprint paper (Unit-3). The company has installed a new captive solar power plant with a production capacity of 5.2 MW.

Key financial indicators (audited)

| Standalone | FY2023 | FY2024 |
|--|--------|--------|
| Operating income | 232.6 | 191.0 |
| PAT | 10.6 | 3.0 |
| OPBDIT/OI | 12.7% | 9.5% |
| PAT/OI | 4.6% | 1.6% |
| Total outside liabilities/Tangible net worth (times) | 2.5 | 2.5 |
| Total debt/OPBDIT (times) | 2.7 | 4.7 |
| Interest coverage (times) | 4.0 | 2.4 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Source: Company data

Status of non-cooperation with previous CRA: CRISIL had moved the ratings assigned to the bank facilities of Venkatalakshmi Paper and Boards Private Limited to CRISIL B+/Stable ISSUER NOT COOPERATING on July 27, 2020. The rating continues to remain at Issuer Not Cooperating, as per the release dated February 21, 2024.

CARE Ratings has moved the ratings assigned to the bank facilities of Venkatalakshmi Paper and Boards Private Limited to CARE B+/Stable ISSUER NOT COOPERATING on July 11, 2024.

India Ratings had moved the ratings assigned to the bank facilities of Venkatalakshmi Paper and Boards Private Limited to IND BB/Stable/A4+ ISSUER NOT COOPERATING on July 18, 2018. The rating continues to remain at Issuer Not Cooperating as per the release dated July 14, 2024.

Any other information: None

Rating history for past three years

| Instrument | Current rating (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|-------------|-------------------------|-------------------------|-------------------|---|-------------------|--------------|--------------------|--------|--------|
| | Type | Amount Rated (Rs Crore) | Oct 30, 2024 | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| Cash Credit | Long Term | 36.00 | [ICRA]BB (Stable) | Jul 31, 2023 | [ICRA]BB (Stable) | Jul 29, 2022 | [ICRA]BB- (Stable) | - | - |
| Term Loan | Long Term | 24.00 | [ICRA]BB (Stable) | Jul 31, 2023 | [ICRA]BB (Stable) | Jul 29, 2022 | [ICRA]BB- (Stable) | - | - |
| Unallocated | Long Term | 3.00 | [ICRA]BB (Stable) | Jul 31, 2023 | [ICRA]BB (Stable) | Jul 29, 2022 | [ICRA]BB- (Stable) | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-------------|----------------------|
| Cash Credit | Simple |

| | |
|-------------|--------|
| Term Loan | Simple |
| Unallocated | 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 |
|------|--------------------|------------------|-------------|----------|--------------------------|----------------------------|
| - | Cash Credit | - | - | - | 36.00 | [ICRA]BB(Stable) |
| - | Term Loan | FY2019 | - | FY2030 | 24.00 | [ICRA]BB(Stable) |
| - | Unallocated | - | - | - | 3.00 | [ICRA]BB(Stable) |

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 12 4454 5300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 6939 6416
nithya.debbadi@icraindia.com

Nikhil Parakh
+91 44 4596 4321
nikhil.parakh@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.