

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

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Branches



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