December 09, 2024

Bahl Paper Mills Ltd.: Ratings Downgraded to [ICRA]A (Stable)/ [ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term and Short-term – Unallocated	-	15.00	[ICRA]A (Stable)/ [ICRA]A2+; Ratings Downgraded from [ICRA]A+ (Stable)/ [ICRA]A1
Long-term Fund-based – Cash credit	13.00	-	-
Long-term Fund-based – Term loan	1.00	-	-
Short-term – Non-fund based	1.00	-	-
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Bahl Paper Mills Ltd. (BPML) factors in the deterioration in its consolidated financial risk profile mainly on account of the large debt-funded capex in its subsidiary JGN Sugar and Biofuels Private Limited (JGN). A substantial debt addition in JGN has led to moderation in BPML's consolidated capital structure and debt protection metrics, as reflected by estimated total debt/OPBDITA of ~3.5-4 times in FY2025, a significant increase from ~0.1 times in FY2023. However, ICRA expects a steady ramp-up of JGN's operations, which coupled with steady earnings of the paper business is expected to support the gradual improvement of its financial risk profile.

Additionally, the ratings remained constrained by the exposure of BMPL's profitability to fluctuations in wastepaper prices and the pricing trends of the final products, which have remained volatile in the last few years. Moreover, intense competition in the duplex/kraft paper segment due to the presence of several unorganised players results in pricing pressures. ICRA also notes that sugarcane availability is very critical for JGN's healthy operational performance. Further, the company has high working capital intensity owing to its predominantly elevated inventory requirements for both BMPL and JGN. The ratings are also constrained by the vulnerability of JGN's profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of minimum selling price) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including JGN, is exposed to the policies of the state and Central Governments on cane prices, international trade, domestic quota, sugar and ethanol pricing and interest subvention loans for distillery capacity expansions.

The ratings, however, positively factor in BMPL's long track record of over three decades in the paper industry, backed by the significant experience of its promoters in the duplex board/kraft paper industry and the company's established distribution network. BMPL can cater to several end-user industries such as food, pharmaceuticals, fast moving consumer goods (FMCG) and e-commerce, owing to its diversified product profile of duplex board, kraft paper and poster paper. The ratings also take comfort from the stable demand for sugar and healthy demand for ethanol amid reduced power cost expenses from the entity's co-generation power plant.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from its established business position in the paper business and stable demand outlook for both its business segments, supporting future growth and accrual generation.

Key rating drivers and their description

Credit strengths

Established operational track and extensive experience of promoters in the paper industry – BMPL was incorporated in 2006 to manufacture duplex board and poster paper. The promoters have been involved in the paper business for more than 30 years and have also developed an established relationship with its customers and suppliers.

Venture into sugar/ethanol business is expected to aid revenue diversification – BMPL has diversified its business profile by foraying into sugar and ethanol production, along with co-generation power in JGN. JGN is expected to provide strong revenue visibility from FY2025 on account of healthy capacity utilisation in both sugar and ethanol. Sugar offtake will be driven by the Government allotted quota while there is a strong demand for ethanol by oil marketing companies to achieve the blending target of petrol.

Diversified product profile and established presence in value-added paper supports margin profile – BMPL's product portfolio is well diversified. It manufactures duplex board, kraft paper and poster paper. The entity produces various categories of coated duplex boards, which are extensively used in the printing and packaging industry. The company is also involved in the manufacturing of high-grade kraft paper and poster paper. The majority of the company's revenues come from duplex board, 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 – BMPL manufactures specialised kraft paper of burst factor (BF) between 16 and 28, and duplex boards between 250 grams per square meter (GSM) and 600 GSM. BMPL's end-user industries include pharmaceuticals, food chains, footwear, cosmetics, toiletries, cigarettes, liquor, FMCG and others. The company's end-presence across sectors insulates it from a downturn in any one specific industry. Besides, JGN will provide further business diversity to BMPL's consolidated operational profile.

Credit challenges

Moderation in financial risk profile due to large debt-funded capex for the sugar business, expected to improve gradually – BPML has remained debt-free in recent years at a standalone level. However, a large debt-funded capex in the subsidiary, JGN, has led to moderation in the capital structure and debt coverage metrics on a consolidated basis in FY2024 and the current fiscal. JGN's project cost was ~Rs. 396 crore, which was financed through a term loan of Rs. 260 crore and the remaining ~Rs. 136 crore from the equity infusion. JGN has capacity of 6,240 tonnes of cane crushed per day (TCD), 3,240 TCD for sugar production and 3,000 TCD for ethanol production and 21.8 megawatts (MW) of co-generation power plant. JGN's facility has recently been commercialised and ICRA expects a steady ramp-up over the near term, which coupled with the steady performance of the paper business is expected to support the gradual improvement in the financial risk profile.

Profitability vulnerable to adverse fluctuations in raw material and output prices – Any adverse movement in raw material prices can negatively impact the company's margins, as witnessed through moderation in margins for FY2023 and FY2024. The company is also expected to witness some decline in margins for FY2025 in the paper business. BMPL encountered pressure on sales realisations in FY2024 and in the current year, including certain input costs, which have impacted its margin profile. Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop variety may affect the yield and recovery rates. In addition, the cyclicality in sugar production results in volatility in sugar prices.

High working capital intensity – BPML operates in a working capital-intensive industry, with high inventory requirements as reflected by the NWC/OI of 30-35% in recent years. Moreover, JGN's working capital intensity is expected to be higher at 50-60%. This is due to the company's nature of business and its requirement to maintain the inventory level for sugar and ethanol, considering the raw material, i.e. sugarcane, is available only for the November – April period.

Liquidity position: Adequate

BPML's liquidity is adequate, driven by healthy free cash and liquid investments of ~Rs. 81 crore (as on September 30, 2024) and a cushion of ~Rs. 32 crore in the overdraft facility in BPML amid healthy cash generation from business on a sustained basis. BMPL has invested ~Rs. 122 crore of equity capital in its subsidiary JGN in FY2024 and the current fiscal and, also has plans to support JGN's funding requirement over the near-to-medium term. JGN has a cash credit facility of Rs. 70 crore for its own working capital requirement. Given that majority of capex has already been incurred in JGN, no material capex is expected at a consolidated basis for BPML over the near to medium term. There is no debt in BMPL while the repayment of ~Rs. 16 crore in FY2026 and Rs. 27.30 crore in FY2026 in JGN. JGN's ability to timely ramp-up its operations and achieve the desired operating efficiency will remain key for BPML's consolidated liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade BPML's ratings if the company demonstrates a sustained improvement in its operating income and internal accrual generation, while maintaining a comfortable financial risk profile and liquidity position on a sustained basis.

Negative factors – Pressure on BPML's ratings could arise if there is a sharp decline in profitability and revenue, any major delay in profitably or ramping up the operations in its subsidiary - JGN. In terms of specific credit metrics, DSCR less than 2.0 times on sustained basis would be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology on Sugar
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated financials of BPML and its 87.14% subsidiary - JGN

About the company

Incorporated in 2006, BPML was established by Mr. Naresh Jhanjhi. The company is involved in the manufacturing of various categories of coated duplex boards that are extensively used in the printing and packaging industry (for packaging requirements in the FMCG, pharma, readymade garments, and automobile ancillary industries, etc). BMPL also manufactures high-grade duplex boards that find application in the making of wedding cards, visiting cards and notebook covers, etc. The company also manufactures kraft paper and poster papers, used in bakeries and food chains, grocery bags, printing calendars, bangle packing and others. Its manufacturing unit is in Kashipur, Uttarakhand, with an installed production capacity of 1,56,000 metric tonnes per annum.

JGN was incorporated for the Group's venture into the sugar and ethanol business. In November 2024, JGN commenced the production of sugar, ethanol, and generated power from its co-generation power plant in Sitarganj, Uttarakhand. The plant has been acquired on a 30-year lease from Uttarakhand Sahakari Chini Mills Sangh Limited on a develop, operate, maintain and transfer (DOMT) basis. BMPL holds an 87.14% stake in JGN and has extended corporate guarantee to the entire debt sanctioned to the tune of Rs. 335.2 crore of JGN.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	607.5	493.4
PAT	82.1	73.9
OPBDITA/OI	18.3%	18.0%

PAT/OI	13.5%	15.0%
Total outside liabilities/Tangible net worth (times)	0.2x	0.5x
Total debt/OPBDITA (times)	0.1x	2.4x
Debt service coverage ratio (times)	432.3x	36.0x
Interest coverage (times)	515.0x	35.3x

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	-			05-Sep-2023	[ICRA]A+ (Stable)	23-Nov-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
Term loans	Long Term	-			05-Sep-2023	[ICRA]A+ (Stable)	23-Nov-2022	[ICRA]A+ (Stable)	16-Sep-2021	[ICRA]A+ (Stable)
Non-fund Based	Short-term	-			05-Sep-2023	[ICRA]A1	23-Nov-2022	[ICRA]A1	16-Sep-2021	[ICRA]A1
Unallocated	Long-term/ Short-term	15.00	09-Dec-2024	[ICRA]A (Stable)/ [ICRA]A2+						

Note - Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term and Short-term – Unallocated	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
NA	**Unallocated**	-	-	-	15.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bahl Paper Mills Ltd.	NA*	Full consolidation
JGN Sugar and Biofuels Private Limited	87.14%**	Full consolidation

*Source: Company, *parent company, **as of Sep 30, 2024*

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