

July 31, 2023

## Venkatalakshmi Paper and Boards Private Limited: Rating Upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	24.37	18.82	[ICRA]BB(Stable); Upgraded from [ICRA]BB- (Stable);
Fund-based – Cash Credit	36.00	36.00	[ICRA]BB(Stable); Upgraded [ICRA]BB- (Stable);
Unallocated	1.63	0.18	[ICRA]BB(Stable); Upgraded [ICRA]BB- (Stable);
<b>Total</b>	<b>62.00</b>	<b>55.00</b>	

\*Instrument details are provided in Annexure-1.

### Rationale

The upgrade in the long-term rating outstanding on the bank facilities of Venkatalakshmi Paper and Boards Private Limited's (VPBPL / the company) factors in the strong performance of the company in FY2023 (provisional) and expectation of sustained improvement in its revenue, margins, and debt protection metrics, on the back of favourable demand from end user segment especially the newsprints segment where the company has an established presence. The rating also factors in the long-standing track record of company's operations, reputed client profile coupled with longstanding relationship and stable demand outlook for the paper industry. The rating also factors the reputed promoter profile and established track record of financial support extended to the company in the past. ICRA takes note of the plant manufacturing newsprints into Kraft segment, however, meaningful ramp up of capacity utilization is yet to be seen and would be a key rating monitorable.

The rating, however, is constrained by VPBPL's moderate financial risk profile and stretched liquidity position. The ratings also factor in the stiff competition in the paper industry and the vulnerability of VPBPL's profitability to the volatility in raw material, forex and fuel prices. The rating also considers the concentration related risks with top-three customers contributing ~40% of revenues and significant portion of the revenues derived from newsprints segment.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the firm will continue to benefit from the strong relationship with its customers resulting in healthy order inflows and uptick in demand seen in the newsprints division.

### 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 part of the Amaravathi Papers and Boards group before being taken over by Mr R. Venkatapathy in December 2014. Currently the day to day operations of the company are managed by his grandson, Mr. Rahul Narendran, Managing Director, an MBA graduate from UK. The promoter's commitment in the business and company's long-standing presence in the paper industry supports its overall business profile.

**Reputed clientele** – The company supplies to well-known newspaper players like Dinamalar, Malaimalar, Daily Thanthi and other major dailies. The company 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 currently caters to 20% of their needs. The company acquired a new client (FY2021) namely Dhana Impex to whom the company started supplying newsprint for the purpose of lottery printing. Dhana Impex represented 16.2% (16.3% in FY2022) of company's sales in in FY2023. The company currently caters to 70% of Dhana Impex's requirements.

**Improvement in financial risk profile** – The financial risk profile albeit being moderate has improved significantly on the back of healthy sales growth in FY2023, owing to improved realisations in across its product categories. The financial profile after moderating in FY2019 amid debt funded capex has improved significantly, marked by total outside liabilities (TOL) to tangible networth (TNW) of 2.5x as of March 31, 2023 (provisional) and a gearing of 1.6x as of March 31, 2023 as against 3.5x and 2.5x in FY2022 respectively. Going forward, the scale of operations and margins are expected to improve on the back of better demand dynamics, stable input prices and ramp up of utilization in unit-3 resulting in further improvement of financial risk profile.

### Credit challenges

**Concentration related risks** – VPBPL's top-three customers contributed ~40% of revenues in FY2023 and a significant portion of the revenues were derived from the newsprints segment. The newsprint division contributed, 89% of the revenues in FY2023 as against ~78% in FY2022. The concentration in this segment is set to continue as the company intends to convert the unit-3 manufacturing kraft paper into newsprints. The concentration is also set to be driven by increased orders from Dhana Impex and acquisition of new clients in the newsprints space.

**Susceptibility of profitability to raw material prices** – Wastepaper (the key raw material) accounts for around ~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 waste paper both domestically as well as through imports in a mix of 60%-40% exposing the company to forex fluctuations. The procurement cost rose to Rs. 28.1/Kg as against Rs. 23.5/kg in FY2022, albeit margins improved in tandem since the company was able to pass on the increase in price rise to its end customers. This resulted in the OPBDITA margins improving to 12.8% in FY2023 from -2.9% in FY2022.

**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 121 days (provisional) in FY2023. Accordingly, the working capital intensity was high at ~26% (NWC/OI) as on March 31, 2023. The high working capital intensity is largely attributed to the higher inventory holding levels as the company generally holds about 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**, given its high utilisation levels, which stood at an average of ~97.9% over the 12-month period ending in April 2023. The cash accruals are expected to remain adequate against the debt repayment in FY2023. The established track record of unsecured loan infusions by the promoters, provide comfort to some extent. The unsecured loans stood at Rs. 18.4 crore as on March 31, 2023.

### Rating sensitivities

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

**Negative factors** – Negative 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 working capital cycle could also trigger a rating downgrade. Specific metric that could result in a rating downgrade includes TD/OPBDITA metric of above 3.0x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
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 Pvt Limited (**VPBPL**), established in 1986, is into manufacturing of newsprint, Tissue paper, calendar paper, poster papers, kraft and ribbed krafts from waste paper. The company was earlier known as V.G. Paper and Boards and was part of Amaravathi Papers and Boards group based out of Tirupur (Tamil Nadu). It was acquired by Mr.R. Venkatapathy during December 2014 and currently managed by his grandson Mr. Rahul Narendran. As on March 31, 2023, VPBPL has installed capacity of 36,000 MTPA of Newsprint paper (Unit-1), 14,600 MTPA of Tissue Paper/Ribbed Kraft (Unit-2) and 25,500 MTPA of Newsprint paper (Unit-3).

### Key financial indicators (Audited)

Standalone	FY2022	FY2023*
Operating Income (Rs. crore)	181.5	232.6
PAT (Rs. crore)	-15.0	10.4
OPBDITA/OI (%)	-2.9%	12.7%
PAT/OI (%)	-8.3%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	3.5	2.5
Total Debt/OPBDIT (times)	-16.5	2.5
Interest Coverage (times)	-0.8	4.0

\*Provisional, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation Source: Company data; FY2023 number mentioned in the above rationale are provisional figures.

### Status of non-cooperation with previous CRA:

CRISIL B+; Stable; ISSUER NOT COOPERATING.

CARE BB-; Stable; ISSUER NOT COOPERATING.

IND BB/INDA4+; ISSUER NOT COOPERATING.

### Any other information: None

### Rating history for past three years

	Instrument	Type	Current Rating (FY2024)			Chronology of Rating History for The past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
1	Cash Credit	Long-Term	36.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	-
2	Term Loan	Long-Term	18.82	18.82	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	-
3	Unallocated	Long-Term	0.18	-	[ICRA]BB (Stable)	[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-1: Instrument details**

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	36.00	[ICRA]BB (Stable)
-	Term Loan	FY2019	-	FY2026	18.82	[ICRA]BB (Stable)
-	Unallocated	-	-	-	0.18	[ICRA]BB (Stable)

Source: Company

*Please click here to view lender wise facilities rated by ICRA*

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

## ANALYST CONTACTS

**Shamsher Dewan**

+91 124 4545300

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**

+91 44 45964318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Nithya Debbadi**

+91 40 4067 6515

[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

**Sachidanand Thillai**

91 74015 51867

[sachidanand.thillai@icraindia.com](mailto:sachidanand.thillai@icraindia.com)

## RELATIONSHIP CONTACT

**Shivakumar L**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 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](http://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.