

Eco Tech Papers

April 29, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits – Cash Credit	20.00	[ICRA]BBB+ (Stable); Assigned
Non-fund based – Letter of Credit	5.00	[ICRA]A2+; Assigned
Fund Based/ Non-Fund Based–(Credit Exposure Limit/Derivative)	0.20	[ICRA]A2+; Assigned
Total	25.20	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the strong management and parentage of Eco Tech Papers (ETP), being co-promoted by the Lohia Group, which has an established presence in North East India with business interest across diverse sectors. It also considers ETP's prominent market presence in the kraft paper industry, particularly in North East India despite a moderate operating track record since FY2014. The ratings also consider the firm's optimum capacity utilisation and the presence of a captive power plant, which positively impacts its cost structure. ICRA also takes note of ETP's conservative capital structure, strong debt coverage metrics and the firm's entitlement to various fiscal incentives for setting up a plant in Assam, which is likely to positively impact its profitability and cash flows in the near to medium term.

However, the ratings are constrained by the stiff competition in the fragmented kraft paper industry that restricts pricing flexibility. Moreover, limited geographical diversification of its revenue stream and vulnerability of its profitability to volatility in waste paper prices, which is the key raw material consumed by ETP, remain a credit challenge. ICRA also takes note of the risks associated with ETP's legal status as a partnership firm including the risks of capital withdrawal by the partners, as witnessed in the recent years.

Outlook: Stable

ICRA believes ETP will continue to benefit from the established presence of ETP in the kraft paper industry, particularly in the North East India and a favourable demand scenario for kraft paper. The outlook may be revised to Positive if substantial growth in profitability and cash accruals strengthens the firm's financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strong management profile and parentage – The firm has been co-promoted by the Lohia Group and Mr. Pradeep Jain. The Lohia Group is one of the established business houses in the north-eastern region (NER) and is into various industries including manufacturing of steel, cement, coke, fly-ash bricks, retailing of lifestyle products, textile processing, flour mills, etc. Mr. Pradeep Jain is involved in FMCG distribution business and production of plastic disposable containers in the NER.

Prominent market presence in the kraft paper industry, particularly in North East India – ETP commenced operations in FY2014 implying its moderate operational track record. Nevertheless, the firm has emerged as a prominent player in the kraft paper market in the NER. Over the years, it has been able to expand its customer base consistently, resulting in a steady growth in its scale of operations. Consequently, it registered a high capacity utilisation of around 116% and 128% in FY2018 and FY2019, respectively.

Presence of CPP positively impacting cost structure – ETP has a co-generation based captive power plant (CPP) of four-mega watt capacity, which meets almost its entire power requirement. The availability of power from the CPP at a cheap rate positively impacts the firm's cost structure.

Conservative capital structure and strong debt coverage metrics – The firm's limited working capital borrowings and prepayment of term loans, in the recent years, led to a conservative capital structure. The gearing stood at 0.14 times as on March 31, 2019 (as per the provisional results). The conservative capital structure and healthy profits at an absolute level resulted in a strong debt coverage metrics.

Entitlement to various fiscal incentives for setting up plant in Assam – ETP is entitled to various Government subsidies available in Assam for setting up its plant. The receipt of the fiscal benefits, in a timely manner, is expected to positively impact its profitability and cash flows till the expiry of the tenure of such benefits in the near to medium term.

Credit challenges

Stiff competition in a fragmented industry limits pricing flexibility – The Indian kraft paper industry is highly fragmented with the presence of a large number of unorganised players. Significant price-based competition among the players impairs the pricing flexibility, to some extent.

Vulnerability of profitability to volatility in waste paper prices – Waste paper is the major raw material consumed by ETP for manufacturing kraft paper. The price of waste paper remains volatile depending on the demand-supply situation in the domestic market as well as the international price trends. This impacts the firm's profitability, as reflected by the volatility in its operating margin in the recent years.

Limited geographical diversification with a bulk of sales confined to Assam – The firm's customers are primarily manufacturers of corrugated boxes. In 9M FY2019, ETP derived around 57% of its revenues from the customers based in Assam, reflecting limited geographical diversification.

Risks relating to a partnership firm including the risks of capital withdrawal – ETP would remain exposed to the inherent risks associated with its legal status as a partnership firm, including the risks of capital withdrawal by the partners, as witnessed in recent years.

Liquidity position

The firm's net profit remained healthy. However, significant capital withdrawal by the partners kept the cash accruals at a moderate level. Nevertheless, the ETP's liquidity is likely to remain comfortable supported by absence of long-term loan repayment obligation and cushion in working capital utilisation.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Paper Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of ETP.

About the company

Eco Tech Papers (ETP), a partnership firm, was established in 2010 at Kamalpur in Guwahati, Assam. It is co-promoted by the Lohia Group, which has an established presence in North East India, and Mr. Pradeep Jain. ETP is involved in manufacturing of multi-layered kraft paper with an installed capacity of 48,840 tonne per annum. The firm supplies kraft paper to the manufacturers of corrugated boxes. It manufactures various qualities of kraft paper ranging from 100 to 150 grams per square metre (GSM) and 16 to 28 burst factor (BF).

Key financial indicators

Particulars	FY2017(audited)	FY2018(audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	121.29	159.59	172.18
PAT (Rs. crore)	24.92	18.40	28.03
OPBDIT/OI (%)	31.66%	17.57%	21.61%
RoCE (%)	29.85%	21.73%	28.76%
Total Debt/TNW (times)	0.25	0.18	0.14
Total Debt/OPBDIT (times)	0.52	0.54	0.33
Interest Coverage (times)	10.69	9.54	78.34

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
CARE	CARE BBB+ (Stable); ISSUER NOT COOPERATING/ ISSUER NOT COOPERATING	A2; March 18, 2019

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Cash Credit	20.00	12.35 (March'19)	April 2019 [ICRA]BBB+ (Stable)	-	-	-
2	Letter of Credit	5.00	-	[ICRA]A2+	-	-	-
3	Credit Exposure Limit/Derivative	0.20	-	[ICRA]A2+	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	20.00	[ICRA]BBB+ (Stable)
Letter of Credit	-	-	-	5.00	[ICRA]A2+
Credit Exposure Limit/Derivative	-	-	-	0.20	[ICRA]A2+

Source: Eco Tech Papers

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@icraindia.com

Akash Aagarwal
+91 33 7150 1134
akash.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 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