

July 11, 2019

## Bazargaon Paper & Pulp Mills Private Limited: Long-term rating revised to [ICRA]C+; Short-term rating revised to [ICRA]A4

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	1.50	0.00	-
Fund-based – Cash Credit	7.25	7.25	[ICRA]C+; revised from [ICRA]D
Non-fund Based – Bank Guarantee	0.50	0.50	[ICRA]A4; revised from [ICRA]D
Unallocated	0.75	2.25	[ICRA]C+ / [ICRA]A4; revised from [ICRA]D / D
<b>Total</b>	<b>10.00</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating revision considers the regularisation of debt repayment in the past six months by Bazargaon Paper & Pulp Mills Private Limited (BPML). However, the rating is constrained by the company's modest scale of operations in a highly competitive business environment, characterised by a large number of organised and unorganised players, which limits pricing flexibility. The rating is also constrained by the stretched liquidity position as indicated by high utilisation of working capital limits averaging at ~88% in the past 12 months ending June 2019, along with marginal cash balance as on March 31, 2019. Moreover, heavy discounting has weakened the operating profitability continuously in the past five fiscals straining the cash flows. The rating also takes into account the vulnerability of the company's profitability to adverse movements in waste paper prices, especially for lower burst factor (BF) category kraft paper. Nonetheless, the rating factors in the extensive experience of the promoters in the kraft paper industry. The ability of the company to improve the working capital intensity and liquidity position, going forward, will be a key rating driver.

### Key rating drivers

#### Credit strengths

**Extensive experience of promoters in the kraft paper manufacturing sector** – The company was established more than three decades ago by Mr. Surajbhan Agarwal and Mr. Jaiprakash Agarwal. The promoters also founded the associate companies of Decor Paper Mills in Hyderabad and Kolar Paper Mills in Puttur (Karnataka). The extensive experience of the promoters has enabled the company to increase its capacity ten-fold since its inception. It continues to receive bulk orders from established customers.

## Credit challenges

**Modest scale of operations with declining operating profitability** – The company has increased its production over the past year by almost 19% aided by regular refurbishing and upgradation of machinery and equipment. However, the production level continued to remain moderate at 71% with modest level of operating income of Rs. 50.4 crore in FY2019. Moreover, the operating margin is largely affected by the heavy discounting policy adopted by the management to increase the scale of business, which has declined to 4.3% in FY2019 from 5.2% in the previous year.

**Stretched liquidity** – The company has undertaken significant capex in FY2018 and FY2019 to increase the installed capacity for kraft paper manufacturing funded by internal accruals. Along with lower operating profitability from the company's heavy discounting policy to increase its market share, this has resulted in a stretched liquidity position as indicated by near to full fund-based working capital facilities.

**Moderate capital structure with weak coverage indicators** – The company has high reliance on external debt as indicated by near to full fund-based limit utilisation over the past one year period. Though the gearing has remained moderate 0.9 time as on March 31, 2019, TD/OPBDITA has remained weak due to its high reliance on external debt and low profitability, as reflected by TD / OPBDITA of 3.8 times as on March 31, 2019.

**Profitability exposed to volatility in raw material prices** – The main raw material used in the manufacturing process is waste kraft paper, i.e., used corrugated boxes as well as old newspapers and used white paper, which altogether form about 90% of the total raw material costs. The company remains exposed to the price fluctuations in its raw material prices.

High competitive intensity from domestic players - There are about 400 kraft paper mills in the country, serving various centers of corrugated box manufacturers. However, due to low margins in the business, the sales of kraft paper remain largely regionalised as high transportation costs make it economically unviable to sell the paper at remote locations. The company largely faces competition from kraft paper units based out of Nashik and Nagpur (Maharashtra).

## Liquidity position

The liquidity position of the company remains stretched with high working capital limit utilisation, averaging ~88% in the past 12 months, along with marginal cash balance as on March 31, 2019. In addition, the company withdrew unsecured debt of Rs. 1.3 crore in FY2019, increasing its dependence on external debt.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Paper Industry</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

## About the company

Bazargaon Paper & Pulp Mills Private Limited (BPML) was incorporated in 1982 and started commercial production from 1989. The company is engaged in the manufacturing of kraft paper of various grades—viz. 14 BF, 16 BF, 18 BF, 22 BF, 24 BF and 28 BF (BF stands for Burst Factor and signifies the strength quality of the paper)—which finds application in the packaging industry, especially for making corrugated boxes. BPML’s manufacturing unit is in Nagpur (Maharashtra). Over the years, the company has undergone several phases of expansion. It commenced with a production capacity of 2,500 metric tonne per annum (MTPA) in 1989, which has been enhanced to 33,000 MTPA over the last 20 years.

In FY2019, on a provisional basis, the company reported a net profit of Rs. 0.5 crore on an operating income of Rs. 50.4 crore, as compared to a net profit of Rs. 0.5 crore on an operating income of Rs. 44.6 crore in the previous year.

## Key financial indicators

	<b>FY2018 (Audited)</b>	<b>FY2019 (Provisional)</b>
Operating Income (Rs. crore)	44.6	50.4
PAT (Rs. crore)	0.5	0.5
OPBDIT/OI (%)	5.2%	4.3%
RoCE (%)	7.7%	7.3%
Total Debt/TNW (times)	1.1	0.9
Total Debt/OPBDIT (times)	4.1	3.8
Interest coverage (times)	2.4	2.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Cash Credit	Long Term	7.25	-	[ICRA]C+	[ICRA]D	[ICRA]B (Stable)	[ICRA]B-
2 Term Loan	Long Term	-	-	-	[ICRA]D	[ICRA]B (Stable)	[ICRA]B-
3 Bank Guarantee	Short Term	0.50	-	[ICRA]A4	[ICRA]D	[ICRA]A4	[ICRA]A4
4 Unallocated	Long Term / Short Term	2.25	-	[ICRA]C+ / [ICRA]A4	[ICRA]D / [ICRA]D	[ICRA]B (Stable) / [ICRA]A4	[ICRA]B- / [ICRA]A4

### 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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.25	[ICRA]C+ / A4
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A4
NA	Unallocated	NA	NA	NA	2.25	[ICRA]C+ / [ICRA]A4

*Source: Bazargaon Paper & Pulp Mills Private Limited*

## ANALYST CONTACTS

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

**Suprio Banerjee**  
+91 22 6114 3443  
supriob@icraindia.com

**Srinivas Menon**  
+91 22 6169 3354  
srinivas.menon@icraindia.com

**Yamini Kothari**  
+91 22 6169 3346  
yamini.kothari@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](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)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

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