

September 15, 2020

## Aryan Paper Mills Pvt. Ltd.: Ratings assigned to enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	22.64	30.59	[ICRA]BBB (Stable); Assigned/Outstanding
Fund-based Cash Credit	12.00	12.00	[ICRA]BBB (Stable); Outstanding
Non-fund Based - LC	4.00	4.00	[ICRA]A3+; Outstanding
CEL	0.33	0.33	[ICRA]A3+; Outstanding
Unallocated Limits	3.83	0.00	-
Medium-term Fixed Deposit Programme	4.00	4.00	MA-(Stable); Outstanding
<b>Total</b>	<b>46.80</b>	<b>50.92</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned ratings continue to favourably factor in Aryan Paper Mills Pvt. Ltd. 's (APMPL) and its promoters' long track record of over two decades in the kraft paper industry, the company's established customer and dealer network and the healthy capacity utilisation levels of 86% over the past few years. The rating also positively factors in the stable operating profit margin, satisfactory debt coverage indicators and working capital cycle.

The reaffirmation in the ratings, however, remains constrained by the company's concentrated product portfolio (majorly kraft paper) and the intense competition in the kraft paper industry and the vulnerability of margins to volatility in the waste paper prices and fuel (coal).

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will continue to benefit from its established brand presence and the extensive experience of its promoters in the kraft paper industry.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters and company's established presence in kraft paper industry** - APMPL has been manufacturing kraft paper since 1990. Its promoters have extensive experience in the kraft paper industry. Over the years, the company has established its presence as a preferred kraft paper supplier and has a wide dealer network in the industry.

**Healthy capacity utilisation levels**—The capacity utilisation remained healthy at 86% in FY2019 and FY2020 along with stable sales volumes because of robust demand scenario.

**Healthy financial profile**—APMPL's profitability remained stable in FY2020 with operating margin of 12.3% and the net margin of 4.4% in FY2020 (compared to 12.3% and 5.3%, respectively, in FY2019) due to favourable raw material prices, despite moderation in realisations. The capital structure remains comfortable with gearing of 1.2 times as on FY2020-end (compared to 1.1 times as on FY2019-end). The coverage indicators also remained stable as reflected by the interest coverage of 3.5 times, TOL/TNW of 1.7 times, TD/OPBDITA of 2.8 times and DSCR of 2.0 times in FY2020 compared to the

interest coverage of 4.0 times, TOL/TNW of 1.6 times, TD/OPBDITA of 1.9 times and DSCR of 2.3 times in FY2019. The working capital intensity (NWC/OI), though increased, remained moderate at 14% in FY2020 compared 11% in FY2019.

## Credit challenges

**Product concentration risk; fragmented industry structure with stiff competition** - APMPL deals in a single product, i.e. kraft paper, and thus remains exposed to product concentration risk. Though, the company has introduced white top press liner kraft paper in the current fiscal, its contribution to sales remain low at present. Further, the kraft paper industry is highly fragmented with stiff competition from numerous organised as well as unorganised players. However, APMPL manufactures kraft paper with 20-35 burst factor (BF) and the degree of competition in the higher BF range (>20) is lower than the lower BF range paper, because of the latter's complexity of manufacturing process and the capital costs involved for setting up the production line.

**Volatility of profitability to adverse fluctuations in waste paper, coal prices** - Waste kraft paper (i.e. used corrugated boxes, old newspapers, used white paper, etc.) is the major raw material, followed by coal (for power/boiler). Thus, the company's contribution margin (and thus the profitability) remains exposed to volatility in waste paper and coal prices.

## Liquidity position: Adequate

The company's liquidity is **adequate** supported by adequate cash accruals vis-à-vis debt repayments. The company's average working capital utilization stood at ~72% for the sixteen-month period - April 2019 to July 2020. Furthermore, the company has got sanction of additional working capital loans of Rs. 7.98 crore under various schemes of RBI to support MSME sector during the covid-19 pandemic. With these additional working capital facilities, deferment/no major capex plans in near term and adequate expected cash accruals against repayments, the liquidity position will remain adequate.

## Rating sensitivities

**Positive triggers** - ICRA could upgrade the company's ratings if the company demonstrates a healthy growth in revenue and profitability, leading to higher than expected cash accruals on a sustained basis. Additionally, strengthening of net worth leading to improvement in capital structure and liquidity, may also lead to a rating upgrade.

**Negative triggers** - Negative pressure on the company's ratings could arise because of significant decline in sales or in profitability leading to lower-than-expected cash accruals. Further, higher-than-expected debt-funded capex impacting the capital structure and liquidity profile may also trigger a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the issuer.

## About the company

Aryan Paper Mills Private Limited (APMPL) was incorporated in 1990 by Mr. Sunil K. Shah and his friends. The company's manufacturing facilities are in the Gujarat Industrial Development Corporation (GIDC) area of Vapi, Gujarat. APMPL manufactures kraft paper in varying grammage and burst factor (BF) specifications, which are used to produce corrugate boxes used for packaging. With modifications and expansions over the years, the installed capacity of the plant has

gradually increased to 55,000 MTPA. The company also has a 5MW-power plant for captive consumption, which commenced operations from December 2016.

The company recorded a net profit of Rs. 5.6 crore on an operating income of Rs. 126.7 crore in FY2020 as against a net profit of Rs. 7.3 crore on an operating income of Rs. 137.3 crore in FY2019. Further, the company achieved sales of Rs. 36.9 crore in 4M FY2021 (provisional financials).

### Key financial indicators - (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	137.3	126.7
PAT (Rs. crore)	7.3	5.6
OPBDIT/OI (%)	12.3%	12.3%
PAT/OI (%)	5.3%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.7
Total Debt/OPBDIT (times)	1.9	2.8
Interest Coverage (times)	4.0	3.5

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

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating		FY2020 30-Jul-2019	FY2019 31-Jul-2018	FY2018 12-Apr-2017
					15-Sep-2020	31-Aug-2020			
1	Term Loan	Long Term	30.59	30.59 <sup>^</sup>	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB - (Stable)
2	Cash Credit	Long Term	12.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB - (Stable)
3	LC	Short Term	4.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
4	CEL	Short Term	0.33	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
5	Unallocated Limits	Long Term/Short Term	-	-	-	[ICRA]BBB (Stable)/A3+	[ICRA]BBB (Stable)/A3+	[ICRA]BBB (Stable)/A3+	[ICRA]BBB - (Stable)/A3
6	Medium-term Fixed Deposit Programme	Medium Term	4.00	-	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)	MA-(Stable)

Amount in Rs. crore; <sup>^</sup>As on August 13, 2020

### 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	NA	FY2026	30.59	[ICRA]BBB (Stable)
NA	Cash Credit	NA	NA	NA	12.00	[ICRA]BBB (Stable)
NA	LC	NA	NA	NA	4.00	[ICRA]A3+
NA	CEL	NA	NA	NA	0.33	[ICRA]A3+
NA	Medium Term Fixed Deposit Programme	NA	NA	NA	4.00	MA- (Stable)

Source: Aryan Paper Mills Private Limited

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