

**RATING RATIONALE**

04Oct2021

**Ganga Paper India Ltd**

**Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs. 31.43 Crs. of Ganga Paper India Ltd**

**Particulars**

| Facilities**       | Amount (Rs.Crs.) |              | Tenure   | Rating#                                 |                                       |
|--------------------|------------------|--------------|--|---|---------------------------------------|
|                    | Previous         | Present      |  | Previous (17 Sep 2020)                  | Present                               |
| Fund Based         | 26.92            | 22.43        | Long Term  | <b>BWR BB (Stable)</b><br>Reaffirmation | <b>BWR BB +</b><br>/Stable<br>Upgrade |
|                    | 2.70             | 9.00         | Short Term   | <b>BWR A4</b>                           | <b>BWR A4 +</b>                       |
|                    | (0.00)           | (9.00)       |  | Assignment                              | Upgrade                               |
| <b>Grand Total</b> | <b>29.62</b>     | <b>31.43</b> | <b>(Rupees Thirty One Crores and Forty Three lakhs Only)</b> |   |                                       |

#Please refer to BWR website [www.brickworkratings.com](https://www.brickworkratings.com) (<https://www.brickworkratings.com>) for definition of the ratings

\*\*Details of Bank Loan facilities, consolidation or instruments are provided in Annexure

**RATING ACTION / OUTLOOK**

Upgrade in the ratings of Ganga Paper India Ltd. ( GPIL or the company) factors in growth in its revenues, improvement in overall business and financial risk profile in FY21 with growing scale of operations and stable operating profit margins owing to better utilisation of manufacturing capacities. Gearing and debt coverage ratios have witnessed sustained improvement during previous years owing to growth in profits whereas borrowing expenses declined. Liquidity in the company is adequate as indicated by NWC, working capital cycle and cash accruals vis-a-vis term debt obligations.

Going forward, the revenues and profits of the company are expected to improve along the projected lines. As the company does not propose any fresh debt funded capex, overall gearing is expected to improve along with retention of profits in the business. Although debt coverage indicators are expected to deteriorate marginally in FY22 owing to higher debt obligations, the same are expected to improve in FY23 owing to improvement in profits and reduction in debt obligations. Liquidity is expected to remain adequate in FY22 and FY23.

The rating is, however, constrained by high competition and fragmentation, customer concentration risks, forex and other risks.

**Outlook: Stable**

BWR believes the Ganga Paper India Ltd.'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

**KEY RATING DRIVERS****Credit Strengths:****• Growth in Revenues :**

Revenues of the company have been growing at a CAGR of 21% during previous four years (FY17 to FY21) and have improved from Rs.83 crs in FY17 to Rs.177 crs in FY21. During FY21, revenues of the company have grown by 26% to cross Rs.177 crs (P.Y Rs.140 crs). During Q1FY22, the company has reported revenues of Rs.82.21 crs with 183% growth over revenues during the same period last year and growth of 20% over revenues during Q4 of FY21. Thus, the company is expected to comfortably achieve the projected revenues during FY22 and FY23.

**• Improvement in Profit margins :**

Operating and net profits of the company have been growing at a CAGR of 23% and 24% respectively during previous four years (FY17 to FY21). Although operating margin has remained at an average of 4.61% during FY17 to FY21, net profit margin has improved to 2.33% in FY21 from 1.24% in FY19 and 1.33% in FY20. Although the company has projected improvement in operating margin to 5.46% in FY22 and 5.39% in FY23, we expect the operating margins to remain stable at 5% in FY22 and FY23, to be on a conservative side.

**• Improvement in Gearing :**

Overall gearing of the company as indicated by Total Debt/TNW and TOL/TNW has improved from 2.82x and 3.45x respectively in FY19 to 2.51x and 3.33x respectively in FY20 and further to 2.04x and 3.18x respectively in FY21 owing to improvement in net worth position of the company. Gearing is further expected to improve along the projected lines during FY22 and FY23.

**• Improvement in Debt Coverage :**

Debt coverage indicators DSCR and ISCR have improved from 0.95x and 2.07x respectively in FY20 to 1.88x and 3.53x respectively in FY21 owing to improvement in profits of the company whereas borrowing expenses and debt obligations either declined or remained stable.

**• Net Debt/EBITDA :**

The ratio has shown considerable improvement during past four FYs (FY18 to FY21). The same has improved from 8.25x in FY18 to 4.79x in FY20 and further to 3.73x in FY21. The ratio is expected to improve further by FY23.

- **Diversification of client base: :**

The company has been selling the products primarily in the domestic market to buyers located in Maharashtra, Gujarat and Madhya Pradesh. However, for the past 18 months, the company has been focussing on the overseas market to offset the slowdown in the domestic market amidst COVID 19 pandemic. During FY21 and FY22 (till date), the company focussed on improved demand for pulp and paper from China and the country contributed approx. 60% of the total exports in FY21. Besides, the company has been focussing on exports to Middle East countries, Bangladesh, Sri Lanka, Portugal and U.S. Total exports have improved from Rs.10 crs in FY20 to Rs.70 crs in FY21 mainly to China and Dubai and have offset the decline in domestic demand for the product. During FY21, exports have contributed approx. 40% of the total annual revenues.

### **Credit Risks:**

- **High competition and fragmentation :**

Due to lower entry barriers by limited capital and technological requirements, small gestation period and easy availability of raw material, the paper industry is characterised by high fragmentation and intensive competition with presence of large number of small and medium players reducing bargaining power with buyers and increasing competition in pricing of finished goods. Further, environmental concerns play a major role in shaping up regulations that have a sizable bearing on the business operations of the industry players.

- **Forex Risks :**

Inward remittances on account of exports are not hedged by forward cover. Thus, the exports are exposed to counterparty default and forex risks.

- **Other risks: :**

Absence of long contracts for sourcing raw material exposes the business to fluctuations in prices of raw material thereby affecting profitability. Substitution of Kraft paper by polyfilms in the packaging industry is the other business risk.

- **Customer Concentration risk :**

The company is exposed to customer concentration risks as almost 60% of the annual sales are derived from top five customers during FY21.

### **ANALYTICAL APPROACH - Standalone**

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below

## RATING SENSITIVITIES

**Upward:** Substantial improvements in gearing and debt coverage ratios with improvement in revenues and profit margins would support upward rating action.

**Downward:** Decline in revenues, operating margins, gearing ratios, debt coverage indicators and overall liquidity in the company would attract downward rating action.

## LIQUIDITY INDICATORS - Adequate

Liquidity in the company is adequate as indicated by cash accruals, NWC, WC utilisation levels and working capital cycle. During FY21, the company has generated cash accruals of Rs.6.26 crs against term debt obligations of Rs.2.20 crs. NWC of the company has improved from Rs.1.71 crs as on 31 March 2020 to Rs.10.38 crs as on 31 March 2021. Average utilisation of sanctioned working capital facilities has been around 70% for the entire FY21. Cash conversion cycle of the company has remained stable at an average of 29 days during previous three years (FY19 to FY21). During FY21, the company availed 6M moratorium on loan repayments and has also availed COVID emergency funding of Rs.4.55 crs to meet liquidity mismatches. Going forward, the company is expected to generate adequate cash accruals of Rs.7.24 crs against debt obligations of Rs.4.48 crs during FY21 and NWC and working capital cycle of the company are expected to remain stable. Promoters of the company have undertaken to infuse additional funds, as and when required, to meet the shortfall in loan and other repayments, if any.

## ABOUT THE ENTITY

Ganga Paper India Ltd., incorporated in March 1985 with its current registered office at 241, vill. Bebedohal, Tal. Maval, Pune, Maharashtra, is engaged in manufacturing of kraft paper and newsprint paper. Mr. Ramesh Chaudhary and Mr. Sharwan Kumar Kanoria are the promoters of the company.

## KEY FINANCIAL INDICATORS (Standalone)

| Key Parameters                | Units   | FY 20-21<br>(Audited) | FY 19-20<br>(Audited) |
|-------------------------------|---------|-----------------------|-----------------------|
| Operating Revenue             | Rs.Crs. | 177.18                | 139.71                |
| EBITDA                        | Rs.Crs. | 8.60                  | 6.94                  |
| PAT                           | Rs.Crs. | 4.13                  | 1.86                  |
| Tangible Net Worth            | Rs.Crs. | 19.02                 | 14.89                 |
| Total Debt/Tangible Net Worth | Times   | 2.04                  | 2.51                  |
| Current Ratio                 | Times   | 1.23                  | 1.05                  |

## KEY COVENANTS OF THE FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

## NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

Existing ratings with CRISIL are under Issuer non Cooperation.

## ANY OTHER INFORMATION

NIL

## RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

| Facilities         | Current Rating (2021) |                  |  | 2021 (History) |        | 2020      |                                 | 2019      |                           | 2018      |                                  |
|--------------------|-----------------------|------------------|--|----------------|--------|-----------|---------------------------------|-----------|---------------------------|-----------|----------------------------------|
| Type               | Tenure                | Amount (Rs.Crs.) | Rating   | Date           | Rating | Date      | Rating                          | Date      | Rating                    | Date      | Rating                           |
| Fund Based         | LT                    | 22.43            | BWR BB+/Stable (Upgrade)                                     | NA             | NA     | 17Sep2020 | BWR BB (Stable) (Reaffirmation) | 16Aug2019 | BWR BB (Stable) (Upgrade) | 11May2018 | BWR BB- (Stable) (Reaffirmation) |
| Fund Based         | ST                    | 9.00             | BWR A4+ (Upgrade)  | NA             | NA     | 17Sep2020 | BWR A4 (Assignment)             | NA        | NA                        | NA        | NA                               |
| FB SubLimit        | ST                    | (9.00)           | BWR A4+ (Upgrade)  | NA             | NA     | NA        | NA                              | NA        | NA                        | NA        | NA                               |
| <b>Grand Total</b> |                       | <b>31.43</b>     | <b>(Rupees Thirty One Crores and Forty Three lakhs Only)</b> |                |        |           |                                 |           |                           |           |                                  |

## COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) (<https://www.brickworkratings.com/download/ComplexityLevels.pdf>). Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com) (<mailto:info@brickworkratings.com>).

## Hyperlink/Reference to applicable Criteria

- [Approach to Financial Ratios](https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf) (<https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf>)
- [General Criteria](https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf) (<https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf>)
- [Short Term Debt](https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf) (<https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf>)
- [Manufacturing Companies](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf) ([https://www.brickworkratings.com/download/Criteria\\_ManufacturingCompanies.pdf](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf))

**Analytical Contacts**

|  |   |
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| <b>Saurabh Agarwal</b><br>Assistant Manager - Ratings<br>Board : +91 11 2341 2232<br><a href="mailto:saurabh.a@brickworkratings.com">saurabh.a@brickworkratings.com</a><br>( <a href="mailto:saurabh.a@brickworkratings.com">mailto:saurabh.a@brickworkratings.com</a> ) | <b>Ashwini Mital</b><br>Director - Ratings<br>Board : +91 172 5032 295 / 6<br><a href="mailto:ashwinimital@brickworkratings.com">ashwinimital@brickworkratings.com</a><br>( <a href="mailto:ashwinimital@brickworkratings.com">mailto:ashwinimital@brickworkratings.com</a> ) |
|--|---|

**1-860-425-2742 | [media@brickworkratings.com](mailto:media@brickworkratings.com) (<mailto:media@brickworkratings.com>)**

**Ganga Paper India Ltd****ANNEXURE-I****Details of Bank Facilities rated by BWR**

| SL.No.   | Name of the Bank/Lender | Type Of Facilities                       | Long Term(Rs.Crs.) | Short Term(Rs.Crs.) | Total(Rs.Crs.) |
|--|-------------------------|--|--------------------|---------------------|----------------|
| 1  | Punjab National Bank    | Cash Credit-Sanctioned                   | 9.00               | -                   | <b>9.00</b>    |
| 2  | Punjab National Bank    | Term Loan-Sanctioned                     | 8.16               | -                   | <b>8.16</b>    |
| 3  | Punjab National Bank    | CECL-Sanctioned                          | 0.80               | -                   | <b>0.80</b>    |
| 4  | Punjab National Bank    | PC/FBP-Sanctioned                        | -                  | 9.00                | <b>9.00</b>    |
|  |                         | Sub-Limit (FOBP/FOUBP/FABC) - Sanctioned |                    | (9.00)              |                |
| 5  | Punjab National Bank    | Gold Card-Sanctioned                     | 1.80               | -                   | <b>1.80</b>    |
| 6  | Punjab National Bank    | GECL-Sanctioned                          | 2.67               | -                   | <b>2.67</b>    |
| <b>Total</b>   |                         |  | <b>22.43</b>       | <b>9.00</b>         | <b>31.43</b>   |
| <b>TOTAL (Rupees Thirty One Crores and Forty Three lakhs Only)</b> |                         |  |                    |                     |                |

**ANNEXURE-II****INSTRUMENT DETAILS**

| Instrument | Issue Date | Amount (Rs.Crs) | Coupon Rate (%) | Maturity Date | ISIN Particulars |
|------------|------------|-----------------|-----------------|---------------|------------------|
| N.A        |            | 0               |                 |               |                  |

**ANNEXURE-III**

## List of entities consolidated

| Name of Entity | % Ownership | Extent of consolidation | Rationale for consolidation |
|----------------|-------------|-------------------------|-----------------------------|
| NIL            |             |                         |                             |

**Print and Digital Media**

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