Short Note on Yash Pakka Limited

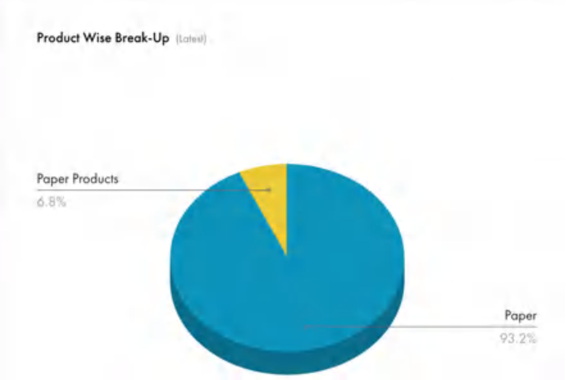
Date:- 7/5/2022

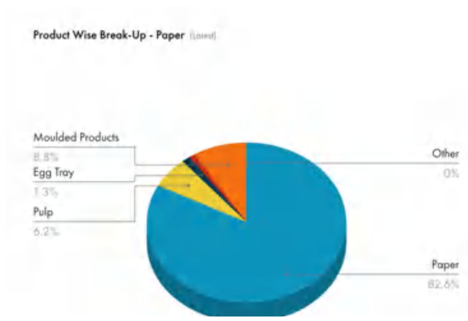
About the Company

Incorporated in 1981 by KK Jhunjhunwalla, (Their first machine PM 1 was installed in 1983 with 1940 MT production, the very same year the production was increased by 2000 MT by 2009 the production capacity was increased to 39100 MT). Yash Pakka Limited, is engaged in the business of specialty packaging products manufacturing and trading in specialty papers and Moulded (Tableware) products. Their manufacturing plant is located in the Faizabad district of Uttar Pradesh, one of India's largest *wheat producers*, facilitating the easy procurement of wheat straw (primary raw material for paper). The company has 36 dealers; exports are being made to more than 16 countries. Yash Pakka limited was one of the first companies to invest in captive cogeneration. Smt Manjula Jhunjhunwalla with her elder son Ved Krishna are the key manging partners of the business. The day to day operations of the business are looked after by Jagdeep Hira.

Yash Pakka is a leading provider of packaging solutions in paper and compostable tableware. The paper pulp disposable tableware market is expected to be growing at a growth rate of 6.5% in the forecast period of 2021 to 2028. Their bagasse fiber-based products are backyard compostable, fossil-free and low-carbon alternatives against those based on finite or petroleum-based resources.

Products Manufacture of *unbleached kraft paper* including different wrapping grades (30-60 GSM) used in interleaving, *bidi wrapping*, *matchboxes*, *tobacco pouches, PE coating*, *wax coating, bituminisation, bangles and glassware, brassware, gum tape*, among other uses; *Packaging, bag and stationery* grades (60-80 GSM) are used in the manufacture of *envelopes, grocery bags, book covers, gift wrap, metallised paper and other stationery materials*. *The also the* manufacturers of *Bleached MG poster paper* (30-80 GSM) used in the pharmaceutical industry and FMCG industry with usage in soaps, detergents, food packaging, tea, sugar and salt sachets, cigarette inner liners, tube light packaging. These grades are also used as base paper for *thermal, chromo and metallised grades; PE coating, foil lamination and wax coating are other uses for the MG poster grades*. *They area also the* manufacturers of coloured like orange grades (48-80 GSM) which are used in envelopes and book covers: golden shade (32-40 GSM) is used in envelope and wrapping grades.





The company has a integrated pulp mill produces bleached and unbleached pulp grades from agro-based raw material, total capacity: 130 TPD**. This backward integration reduce dependence on purchased pulp.** The company focuses to *enhance the sale of unused pulp*.

The company has two power plants; one with an output of 2.5 MW and the other with an output of 6 MW; (two plants having extraction-cum-condensing turbines and rice husk-based FBC boilers). Both with extraction-cum-condensing turbines and rice husk-based FBC boilers. A chemical recovery plant with capacity of 145 MT BD Solids. 14-TPD moulded products capacity across 11 lines.

The Company's customers comprise major QSR chains and restaurant and hospitality players, such as **Starbucks, Pizza Hut, KFC, Café Coffee Day, McDonald's, Social, Flurys, Haldiram's, Chai Point**

Quality Measures of the Company

Quality parameters

Parameters	Earlier	Now
Paper brightness	79-81%	80-81%
Grammage variation of paper from standard	10%	5%
Diffused opacity	65%	75-80%
Tensile strength kg/ 15 mm	1.0 – 3.5 Kg/ 15 mm	1.5 - 6.0 Kg/ 15 mm
Ash content	10-12 %	10-15%

Cost Structure of Raw Materials

Raw materials	Cost per ton (in Rs.)	% of revenue	% of total raw materials
Bagasse	2,730	2.42	8.59
Wheat straw	2,538	17.86	63.37
Old gunny/Jute goods	4,259	1.37	4.80
Unbleached softwood	23,617	2.19	7.80
Bleached softwood	30,722	4.25	15.07

Raw materials and power constitutes the major cost, accounting for around 55-60% of the total costs. The paper industry faces a demand-supply mismatch, resulting in price rise. The cost of pulp has been rising after the global slump, reaching an all-time high of USD 974 per ton as on 2009 (Source: CMIE). Moreover, an earthquake in Chile recently disrupted pulp supplies of about three million tonnes, resulting in an increase in price of pulp globally. US government withdrew a subsidy of USD 125-150 per ton for the treatment of black liquor (generated during pulp manufacturing), which is a harmful effluent and by-product of kraft paper manufacture. The withdrawal of the subsidy discouraged wood use for pulp manufacture, boosting the demand for its alternative - waste paper. As per CRISIL estimates, the domestic prices of paper are expected to increase over 2010-11 and 2011-12. The manufacturers are increasing capacity significantly, adding about 1.5 to 2 million tons between 2008 and 2012. most of which are in the writing and printing segment. Paperboard prices are likely to increase by 10-12%, owing to lower capacity additions and higher demand growth.

Market Dynamics

Global paper and paperboard production stood at around 380 million tons in 2008, the US leading with over 100 million tons and accounting for nearly a third of the world's production. With a large number of paper production capacities shutting down in North America and growing capacity creation in Asia (especially China), the latter accounts for over a third of global paper production, while Europe and North America account for about 30% and 25% respectively. Interestingly, even as per capita paper consumption in the US is 300 kg, it is 35 kg in Asia, implying excellent growth prospects. Paper demand is unevenly distributed as 72% of the world's paper is consumed by 22% of the world's population – in the US, Europe and Japan (Source: wrm.org.uy). The world demand for the material is expected to grow by around 3% annually, reaching an estimated 490 million tons by 2020, with significant growth coming out of Asia and Eastern Europe (Source: pulpandpaper.net).. China is now the world's second-largest household paper consuming nation The Rs. 25,000-crore Indian paper industry accounts for about 1.6% of the world's paper and paperboard production even though the country accounts for nearly 16% of the global population. The Indian paper industry's market size has been estimated at Rs. 321 billion, growing at a CAGR of 10.5% from around Rs. 195 billion in 2003-04 to Rs. 321 billion in 2008-09. In 2009-10, the country produced 9.18 million tons of paper, growing at an average 6-7% compared with 2% growth in developed countries (Source: Assocham). The paper industry growth is forecast at 8.4% annually, touching 11.5 million tons in 2011-12 and 15 million tons by 2015

In India, paperboard accounts for nearly 47.3% of the total market size, followed by writing and printing paper (29.6%), newsprint (19.5%) and speciality paper. India's per capita paper consumption grew 10.6% in 2009-10 (from 8.3 kg in 2008-09 to 9.18 kg) compared with 42 kg in China and 350 kg in developed countries. A number of European and US paper mills are shutting down owing to overcapacity and cost issues, an attractive export opportunity for Indian paper mills. Besides, Indian paper manufacturers, utilising agriculture-based raw material, possess a sustainable growth opportunity on account of growing environment consciousness

Packaging industry: The Rs. 77,570-crore Indian packaging industry (as on April 2010) grew around 15% year-on-year (Source: Indianpackagingshow.com). The paperboard market size was about Rs. 120 billion in 2009; demand grew at a 3.4% CAGR from 3.7 million tons in 2004 to 4.4 million tons in 2009 (Source: CRISIL Research), riding a growth in the pharmaceutical, cigarettes, textile, FMCG, consumer durable and retail segments.

Demand and supply: Domestic paper demand grew steadily at a CAGR of 6.5% – from 6.8 million tons in 2003 to 9.3 million tons in 2009 (Source: CRISIL Research). With rising economic growth, share of the paperboard segment in total demand has increased. The paperboard segment accounts for around 47% of demand, while the writing and printing, newsprint and speciality paper segment accounts for nearly 30%, 20% and 3% respectively. It is expected that by 2014, paperboard demand will grow at a 7% CAGR due to a healthy growth in industrial production and recovery in the consumer goods sector. Demand for writing and printing paper is expected to grow 6.5% CAGR, driven by the government's thrust on education and overall economic growth.

Production: The Indian paper industry is fragmented; the top five producers accounting for around 20-22% of the total Indian paper capacity. In 2009, the annual operating capacity was 9.1 million tons and annual production was 7.4 million tons, and with currently undertaken expansions, another 15 lac tons is expected to be added by 2012 (Source: CRISIL Research).

Owing to rising bagasse prices, the Company shifted its raw material mix to wheat straw (83% of requirement), gunny bags (4%), softwood pulp (3%) and bagasse (10%). The Company is advantageously situated in Faizabad in eastern Uttar Pradesh, a locational advantage vis-à-vis sourcing of raw materials, which are sourced from within a 200-km radius of the mill, at a cost lower than in other parts of India. The Company enjoys strong relationships with raw material suppliers and farmers, facilitating economical and timely procurement.

Indian Paper Industry (today)

The Indian paper industry is estimated to be about 20 metric tonnes per annum (MTPA), of which carton boards and container boards (corrugated boards) constitute the largest share (55 percent), followed by writing and printing paper (25 percent), specialty paper (10 percent) and newsprint (10 percent).
The industry is expected to average an annual growth rate of 8-9 percent over the next five years, led by robust growth in packaging grades. Within carton boards, the consumer packaging segment (40-50 percent of total paperboard volumes), is expected to clock 8.5-9.5 percent CAGR in the same period, driven by increased volumes in end-user segments such as household appliances, FMCG products, readymade garments, pharmaceuticals and e-commerce. "A stronger-than-anticipated growth in e-commerce sales due to increasing safety and hygiene consciousness, healthy double-digit growth in domestic pharmaceutical sales, and revival in consumer durable sales are driving demand for packaging paper," a report from CRISIL. The industry is struggling due to cheap paper / pulp imports from China and ASAN countries.

What's changing

China banned waste import into the country hence the cost of pulp production has become expensive. At the same time many European countries are now using their waste for captive consumption.

Red Flags / Risks

(Liquidity Crisis)

On the key challenges of 2010-11

We faced our share of challenges during the period under report.

Raw material: A low raw material inventory due to inadequate liquidity increased resource costs; however, we received encouraging support from suppliers.

Quality: Quality issues emerged as we consumed substituted wood fibre with wheat straw for the first time; however, we stabilised assets and embarked on establishing a wood source line to enhance product quality and reduce wheat straw dependence.

Due to liquidity constrains the company changed key raw material from wood fiber to wheat straw.

(Source:- 2010 Annual Report)

Promoter Pledge

Summary statement holding of specified securities

Category of shareholder	No. of shareholders	No. of fully paid up equity shares held	Total no. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	No. of Voting Rights	Total as a % of Total Voting right	No. of Shares pledged or otherwise encumbered: No.(a)	No. of Shares pledged or otherwise encumbered: As a % of total Shares held(b)	No. of equity shares held in dematerialized form
(A) Promoter & Promoter Group	5	1,59,10,156	1,59,10,156	45.15	1,59,10,156	45.15	1,59,10,156	100.00	1,59,10,156
(B) Public	15,508	1,93,29,844	1,93,29,844	54.85	1,93,29,844	54.85		0.00	1,88,43,516
(C1) Shares underlying DRs				0.00		0.00		0.00	
(C2) Shares held by Employee Trust				0.00		0.00		0.00	
(C) Non Promoter-Non Public				0.00		0.00		0.00	
Grand Total	15,513	3,52,40,000	3,52,40,000	100.00	3,52,40,000	100.00	1,59,10,156	45.15	3,47,53,672

100% of the promoter holding is pledged. C

Shut Down and Maintenance:- PM 3: The capacity utilisation of our Paper Machine 3 declined from 61.85% in 2008-09 to 51.17% due to the MG cylinder coating and grinding which warranted machine shutdown for 45 days. The business loses significant volumes when they go for maintained / shutdown.

Industry Contraction:- The industry contracted slightly over few years, primarily due to the shift to digital media and paperless communication across most developed economies.

Share Warrants:- Promoter Ved Krishna allotted share warrants to himself during the year 2016 at the price of 15rs per warrant. 75,40,000 equity warrants were issued aggregating to `11.31/- crores.

In Dec 2015 Filling Director and Promoter Ved Krishna Held 12.4% of the company. His stake and other promoter's stake was 100% pledged.

Shareholding Pattern

Yash Pakka Ltd-$

Scrip Code : 516030 | Quarter Ending : Dec-15

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Entity Type	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	Number of Shares pledged or otherwise encumbered: No.(a)	Number of Shares pledged or otherwise encumbered: As a % of total Shares held(b)	Number of equity shares held in dematerialized form
A1) Indian					0.00		0.00	
Individuals/Hindu undivided Family		1	16,000	16,000	0.06	16,000	100.00	16,000
K. K. Jhunjhunwala - HUF			16,000	16,000	0.06	16,000	100.00	16,000
Any Other (specify)		4	83,21,456	83,21,456	30.04	83,21,456	100.00	83,21,456
Ved Krishna		1	34,34,950	34,34,950	12.40	34,34,950	100.00	34,34,950
Manjula Jhunjhunwala		1	5,83,366	5,83,366	2.11	5,83,366	100.00	5,83,366
Satori Global Limited		1	33,34,500	33,34,500	12.04	33,34,500	100.00	33,34,500
Yash Agro Products Limited		1	9,68,640	9,68,640	3.50	9,68,640	100.00	9,68,640
Sub Total A1		5	83,37,456	83,37,456	30.10	83,37,456	100.00	83,37,456
A2) Foreign					0.00		0.00	
A=A1+A2		5	83,37,456	83,37,456	30.10	83,37,456	100.00	83,37,456

Ved Krishna Allotted warrants to himself and got his stake increase from 12.4% to 31.14% in the company. Total warrant allocation money was 11.31 crores. Since we all know that the warrants offer a 18 month window to convert the warrants to equity shares. The allotee can pay only 25% cash upfront to get the warrants and the balance has to be paid at the time of conversion.

Identity	Category	Pre-Issue Holding	% of Pre-issue holding	No. of warrants to be allotted	Issue Price (INR) of equity warrants	Post-issue holding	% of Post-issue holding
VED KRISHNA S\O LATE MR. KRISHNA KUMAR JHUNJHUNWALA YASH PAPERS LIMITED YASH NAGAR, FAIZABAD - 224135 PAN NO.: AJRPK1551C	Promoter	3434950	12.40%	7540000	₹ 15 per equity warrants	10974950	31.14%

vi. Particulars of the proposed allottees:

The proposed allottee, Mr. Ved Krishna is a Managing Director & Promoter of the Company. He has a rich experience of about 2 decades in Management and administration of paper Company.

He is also ex-chairman of Confederation of Indian Industry (C.I.I.), Uttar Pradesh. He has been awarded many awards in the field of Management from some of the prime institution.

vii. Shareholding Pattern pre and post preferential Offer*

Sl. No.	Categories of Shareholders	Pre-allotment Shareholding*		Post-allotment Shareholding**	
		No. of Shares	% to Shares	No. of Shares	% to Shares
1	Promoters**	8337456	30.10	15877456	45.06
2	Mutual Funds and UTI	1000	0.00	1000	0.00
3	Banks, Financial Institutions	0	0.00	0	0.00
4	Central/ State Government	211121	0.76	211121	0.60
5	Corporate Bodies	689937	2.49	689937	1.96
6	Individuals/ HUF / Trusts	18097666	65.34	18097666	51.35

In the next reportable quarter.

Shareholding Pattern

Yash Pakka Ltd-$

Scrip Code : 516030 Quarter Ending : Mar-16

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Entity Type	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	No. of Shares UnderlyingOutstanding convertible securities (including Warrants)(X)	Number of Locked in shares		Number of Shares pledged or otherwise encumbered		Number of equity shares held in dematerialized form
							No.(a)	As a % of total Shares held(b)	No.(a)	As a % of total Shares held(b)	
A1) Indian					0.00			0.00		0.00	
Individuals/Hindu undivided Family		1	16,000	16,000	0.05			0.00	16,000	100.00	16,000
K. K. Jhunjhunwala - HUF			16,000	16,000	0.05			0.00	16,000	100.00	16,000
Any Other (specify)		4	1,04,51,456	1,04,51,456	35.04	54,10,000	21,30,000	20.38	83,21,456	79.62	1,04,51,456
Ved Krishna		1	55,64,950	55,64,950	18.66	54,10,000	21,30,000	38.28	34,34,950	61.72	55,64,950
Manjula Jhunjhunwala		1	5,83,366	5,83,366	1.96			0.00	5,83,366	100.00	5,83,366
Satori Global Limited		1	33,34,500	33,34,500	11.18			0.00	33,34,500	100.00	33,34,500
Yash Agro Products Limited		1	9,68,640	9,68,640	3.25			0.00	9,68,640	100.00	9,68,640

By March 2016 reportable quarter Ved Krishna had converted 2130000 warrants to equity shares by paying the balance 75% of 15 Rs which was 11.25 rs per share and saw his shareholding increase from 12.4% to 18.66%. Since at 12.4% holding his 100% shareholding was pledged at 18.66% pro rata basis his pledge came down to 61.72%.

Next June reported quarter 2016

Yash Pakka Ltd-$

Scrip Code : 516030 | Quarter Ending : Jun-16

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Entity Type	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	No. of Shares UnderlyingOutstanding convertible securities (including Warrants)(X)	Number of Locked in shares		Number of Shares pledged or otherwise encumbered		Number of equity shares held in dematerialized form
							No.(a)	As a % of total Shares held(b)	No.(a)	As a % of total Shares held(b)	
A1) Indian					0.00			0.00		0.00	
Individuals/Hindu undivided Family		1	16,000	16,000	0.05			0.00	16,000	100.00	16,000
K. K. Jhunjhunwala - HUF		1	16,000	16,000	0.05			0.00	16,000	100.00	16,000
Any Other (specify)		4	1,29,31,456	1,29,31,456	40.02	29,30,000	46,10,000	35.65	83,21,456	64.35	1,29,31,456
Ved Krishna		1	80,44,950	80,44,950	24.90	29,30,000	46,10,000	57.30	34,34,950	42.70	80,44,950

Converting via the same route his pledge dropped to 42.7% and his holding increased to 24.9%.

By September 2017 reportable quarter

Yash Pakka Ltd-$

Scrip Code : 516030 | Quarter Ending : Sep-17

Statement showing shareholding pattern of the Promoter and Promoter Group

Category of shareholder	Entity Type	Nos. of shareholders	No. of fully paid up equity shares held	Total nos. shares held	Shareholding as a % of total no. of shares (calculated as per SCRR, 1957)As a % of (A+B+C2)	Number of Locked in shares		Number of Shares pledged or otherwise encumbered		Number of equity shares held in dematerialized form
						No.(a)	As a % of total Shares held(b)	No.(a)	As a % of total Shares held(b)	
A1) Indian					0.00		0.00		0.00	
Individuals/Hindu undivided Family		1	16,000	16,000	0.05		0.00	16,000	100.00	16,000
KK Jhunjhunwala HUF		1	16,000	16,000	0.05		0.00	16,000	100.00	16,000
Any Other (specify)		4	1,58,61,456	1,58,61,456	45.01	75,40,000	47.54	1,58,61,456	100.00	1,58,61,456
Manjula Jhunjhunwala		1	5,48,366	5,48,366	1.56		0.00	5,48,366	100.00	5,48,366
Ved Krishna		1	1,10,09,950	1,10,09,950	31.24	75,40,000	68.48	1,10,09,950	100.00	1,10,09,950

Shri Ved Krishna again pledged the shares taking loans in his personnel capacity and penalizing the common shareholders as issuing warrants to himself increased his shareholding in the company and reduced the public shareholders holding down from 65.34% to 51.35%. The business had a book value 56 Crores in 2017 with a Debt of 124 crores which is 2.2 : 1 Debt to Equity Ratio. Shri Ved Krishna did not face much issue to pledge these shares and get a loan for himself as the price of the stock (i.e its market cap was rising)

Rather Ved Krishna never bought any stake in the company. He initially inherited 8.92 stake in the business. Further on Yash Krishna gifted his entire stake to Ved Krishna increasing his stake to 12.4% from a family settlement which happened in 2014. Yash Krishna is younger brother of Ved Krishna.

The management capitalized the interest cost for the tableware segment as it is their debt to equity is on higher stretched side.

of profits. Therefore, the Total Debt to GCA of the company has also come down to 4.22x as on March 31, 2019 as against 5.79x as on March 31, 2018. However, the interest coverage ratio of the company has reduced from 3.13x in FY19 as against 2.94x in FY18 on account of increase in the interest expense. This is because that the company took the disbursement during the year FY2017-18 towards the tableware project and the interest has been capitalized during the year with regards to the tableware proposal.

Extravagant Salary Hikes of Shri Ved Krishna even when business was making losses.

2014-15

Name of Directors / KMP	Remuneration of the Director / KMP in F.Y. 2014-15 (₹)	Remuneration of the Director / KMP in F.Y. 2013-14 (₹)	% increase in F.Y.2014-15 (%)	Ratio (times) of the remuneration of each director to the median remuneration of the employees	Comparison of the remuneration of the KMP against the performance of the company
Mr. Ved Krishna, Managing Director (KMP)	35,80,471	23,42,142	53%	18.85	The turnover of the Company increase 16.65% and the Earning before Depreciation, Tax, Amortisation and Exceptional Items for the financial year ended March 31, 2015 increased by 14.86%.
Mr. Narendra Kumar Agrawal, Director Works	20,71,711	18,72,747	11%	10.91	
Mr. Girish Kumar, CEO & Wholetime Director (KMP)	25,95,123	15,97,744	-	13.66	
Mr. Nikhil Gupta, CFO (KMP)	11,24,520	-	-	5.92	

b) Price Earnings ratio of the Company: The Price Earnings Ratio was not applicable as at March 31, 2015 due to negative earnings per share as compared to 6.14 as at March 31, 2014.

2015

The company had an exceptional loss of 15.47 Crore. Details as under

A sum of `15,47,59,000 had been recognised as income accrued during the period from April, 2007 to December, 2012 based on the Emission Reduction Purchase Agreement (ERPA) with Belgian State for sale of CERs (Certified Emission Reductions) generated from the 6 MW Co-generation Power Plant Project registered as CDM (Clean Development Mechanism) with UNFCCC (The United Nations Framework Convention on Climate Change). The Belgian State has terminated the ERPA due to non-delivery of CERs. Consequently, the receivable aggregating to `15,47,59,000 as recognised in earlier years in this regard has been written off and the same has been disclosed as "Extraordinary Item" in the Statement of Profit and Loss.

This reduced the reserves of the business but still Ved Krishna got a salary hike for the year from 23.33 lakhs to 35.80 lakhs again a jump of 53%.

2016

Profit 3 Crores

Ved Krishna Salary again increase by 17.5% from 35.8 lakhs to 42.07 lakhs which is 14% of current year's profits.

2018
Profits increased from 8 Crore to 12 Crore an increase of 50%
Ved Krishna Salary increased from 42.07 lakhs to 70.11 lakhs increase of 67%

Mr. Ved Krishna has a team of professionals such as Mr. Jagdeep Hira (Managing Director & CEO) who is currently looking after day to day operations of the company. Mr Ved Krishna does not even look at the day to day operations of the company vs the level of salary he windthrow's from the business.

Credit Rating Shopping

The company seems to have been doing credit rating shopping. They get their debt rated once a year and that too keep switching to other rating agencies

Detailed Rationale & Key Rating Drivers
CARE has been seeking information from Yash Pakka Limited (YPL) to monitor the ratings vide e-mail communications/ letters dated January 05, January 08 and January 11, January 15, January 20, January 25, 2021, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on YPL's bank facilities will now be denoted as **CARE BBB; Stable/CARE A3; ISSUER NOT COOPERATING***.

The company delays and keep switching credit ratings. First they moved out of Crisil to Brickwork and now they are not cooperating with Brickwork Either.

Advisory as on 10 Mar 2022

Yash Pakka Ltd.

Brickwork Ratings had last reviewed the rating of Yash Pakka Limited (the company) at BWR BBB/Stable/A3+, on 9 March 2021 for the bank loan facilities of Rs.330Crs. The rating has become overdue for surveillance now and a review is under process.

As more than 12 months have lapsed since the last rating, BWR hereby informs that it has not been possible to review the rating within the stipulated time, mainly due to non-receipt of essential information and discussions required for review.

Management Promises Does not Deliver

Q1 Presentation 2021

Key updates

- US subsidiary established : objectives - Innovation , GCA and marketing of CHUK
- Merger with Yash Compostable Limited – NCLT approval likely this week
- Pledge release from banks under process
- Expansion project is under revision. Paper Machine 3 modification and tableware 8 machines will be completed soon

Q2 Presentation 2021

Key updates

US Subsidiary

- US subsidiary operational – Name changed to Pakka Inc
- First team member on Board
- Collaboration , US Market exploration and R& D activities background work started

Promoters Pledge

- Process is started and will be completed by end of year

Tableware Business

- Business gradually picking subject to no third wave of corona. 100% growth as compared with the previous quarter

Merger

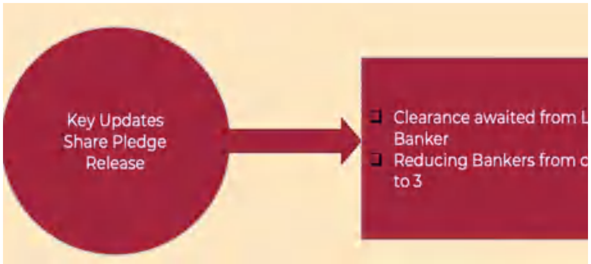
- Merger between Yash Pakka and Yash Compostable – NCLT Meetings done with positive outcome, filling done to NCLT. Merger approval expected by December 2021

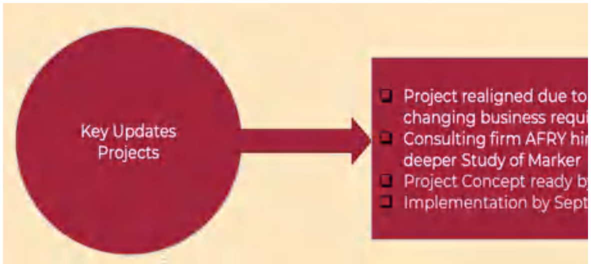
Expansion Project

- Expansion Project revised and reconsidered keeping in mind the changing business need. New Project will be announced in Q3

Q3 Presentation 2021

No intimidation of what was spoken about in Q1 and Q2 to be discussed in Q3





Stretched Working Capital

The company has a stretched working capital cycle. The main reason for this is the slow moving inventory. Inventory and hence the working capital cycle is stretched from 1 to 2 years which kind of explains the high debt requirement for the business in spite of not doing any significant capex in last 10-12 years.

Balance Sheet

Standalone Figures in Rs. Crores / View Consolidated

CORPORATE ACTIONS

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Sep 2021
Share Capital +	24	24	24	28	28	28	30	32	35	35	35	35	35
Reserves	12	15	14	16	18	11	15	24	38	58	81	95	111
Borrowings	88	87	90	102	114	110	103	134	138	119	98	94	67
Fixed Assets +	103	97	92	90	94	92	92	93	162	168	167	168	166
CWIP	1	0	0	0	0	1	0	10	2	0	5	6	9

Ratios

Standalone Figures in Rs. Crores / View Consolidated

	Mar 2010	Mar 2011	Mar 2012	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021
Debtor Days	30	38	43	46	35	27	34	25	27	23	26	31
Inventory Days	283	262	225	306	392	296	202	236	510	373	328	571
Days Payable	141	117	102	69	93	63	47	41	120	69	50	72
Cash Conversion Cycle	**172**	**184**	**166**	**283**	**335**	**259**	**190**	**220**	**417**	**327**	**304**	**530**
Working Capital Days	88	96	127	170	157	106	108	126	126	82	90	128
ROCE %	9%	11%	9%	11%	11%	15%	13%	16%	17%	20%	24%	16%

Management Ignorance towards Shareholders

Mudith: When do you think that by what time will all the pledge share become unpledge?

Ved Krishna: Jignesh bhai and I have working on it right now, because we did not even realize that was such an issue with investors, so we had started working on it. Jignesh bhai, would you like to take a call on timeline that we can actually specify and what is your thinking?

They say they have started working on the de pledging of shares. And till Date 9.5.22 the shares are 100% pledge. And we have seen in the report what the management has done with loans and pledges. They also mentioned in the concall that these pledge are for expansion. But stated above the fixed asset / net block of last many years. Hardly any capacity expansion done. More or less their capacities have remained same from last 10 years. In-fact they capitalized some interest cost so as to get more loans for future expansions as per info of credit rating reports.

(Source Dec 2020 Concall)

Numbers In Metric Tons

Year	2010	2013	2014	2015	2016	2017	2018	2019	2020	2021
Paper	26505	31729	34818	37975	35981	35794	35734	38897	43016	32184
Saleable Pulp	3153		4050	5663	4553	5088	7429	7428		
Pulp Realization	19819		26641							
Exports	2384							6967		
Employees	384			336	363	326	385	426	450	462
Moulded Products								1150	1209	1072

Stagnation of business as capacity utilization is high. Company plans to do expand capacity.

Capex to address the stagnant scale but stabilisation risks to remain - Since the plants are operational at almost full capacity, scale of operations has remained stagnant over FY17-FY21. The company reported operating income of Rs. 254.18 Crs during FY20 against Rs. 253.42 Crs during FY19. YPL reported revenue of Rs. 132.72 Crs in 9MFY21, partially impacted by Covid-19 induced lockdown. With a capex towards additional capacity of 50,160 TPA, the scale is likely to improve over the medium term, though stabilisation of large capacity may take time.

Total cost of the project is estimated to be around Rs. 241.77 Cr which will be funded by debt of Rs. 181.32 Crs and rest will be from the promoters either in the form of equity or unsecured loans. The projected capacity is expected to get operationalised starting FY23. Since it will take at least 12-15 months to complete the capacity expansion, change in market dynamics over the period will play a key role in the successful ramp up of the enhanced capacity

(Source: March 2021 Credit Rating)

Financial Analysis

10 Year view of the financials of the company.

(INR Crores/10 Millions)					YASH PAKKA LTD						Dec-21
Narration	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Last 4 Quarters
Year Numbers	1	2	3	4	5	6	7	8	9	10	
Sales	109	116	147	172	173	174	199	250	252	184	268
Sales YoY%		6.59%	26.67%	16.89%	0.62%	0.30%	14.74%	25.46%	0.85%	-27.24%	46.15%
coped from screener	1.07%	12.98%	11.67%	11.44%	12.43%	0.70%	0.67%	0.91%	0.68%	0.43%	
Gross Profit	107.99	101.25	130.18	152.56	151.79	172.63	198.13	247.98	250.67	182.86	64
GP Margin	99%	87%	88%	89%	88%	99%	99%	99%	99%	100%	24%
Operating Profit	17	20	22	25	25	30	38	45	53	32	64
		17.18%	9.31%	16.12%	-3.00%	20.73%	27.47%	19.73%	17.45%	-39.18%	98.18%
Operating Profit Margin (OPM%)	16%	17%	15%	15%	14%	17%	19%	18%	21%	18%	24%
Other Income	0.65	1.55	1.65	(13.86)	1.19	2.66	3.49	5.03	8.67	11.16	8.39
EBIT	11	15	17	7	19	26	35	42	52	34	63
EBIT Margin%	10.46%	13.21%	11.60%	4.26%	11.07%	14.75%	17.53%	16.65%	20.66%	18.45%	23.33%
EBIT YoY %		34.59%	11.19%	-57.05%	161.31%	33.68%	36.35%	19.16%	25.18%	-35.03%	84.80%
Interest	12	13	14	16	15	15	13	17	13	10.95	10
Depreciation	6	6	6	4	7	7	6	9	10	10	10
Profit before tax (PBT)	(1)	3	3	(9)	4	11	22	25	40	22.93	52.61
PBT Margin(PBT%)	-0.87%	2.18%	2.07%	-5.02%	2.52%	6.31%	11.10%	9.93%	15.67%	12.49%	19.60%
Tax	0.18	0.85	1.10	(1.98)	1.51	3.18	9.67	4.12	11.92	6.22	15.15
Tax%	-19%	33%	36%	23%	35%	29%	44%	17%	30%	27%	29%
Net profit after tax (PAT)	-1.13	1.69	1.94	-6.66	2.85	7.79	12.48	20.71	27.62	16.72	37
PAT YoY%		-249.56%	14.79%	-443.30%	-142.79%	173.33%	60.21%	65.95%	33.37%	-39.46%	123.98%
Net Profit Margin (NPM%)	-1%	1%	1%	-4%	2%	4%	6%	8%	11%	9%	14%
Total Debt (D)	90	102	114	110	103	134	138	119	98	94	94

The company has able to increase its sales from 109 Crores in 2012 to 252 Crores (a cagr rate of 11% from 2012 to 2020). The company faces a sales decline in 2021 with a drop to 184 Crore in 2021 (where 2 qtrs had lock down effects). The sales have further escalated to 268 crores in the trailing twelve months. The company has had fluctuating operating margins. The same saw a drop from 17% to 15% in 2014 to again flock down to 14% in 2016 and again going up again to 17 and 19% in 2017 and 2018 with it again cooling off to 18% in 2021 and to 24% in trailing twelve months.

Credit ratings affirm the risk of cyclic nature of the business. The fluctuations of raw material cost the in availability of raw materials hurts the margins from time to time.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Yash Pakka Limited continue to derive strength from the company's experienced promoters and its long track record of operations, moderate financial risk profile, established customer relationships with robust selling and distribution network, cost effective production set-up with integrated operations along with the locational advantages.

However, the ratings are offset by the project execution risk associated with capacity enhancements in the tableware segment along with certain other infrastructure improvements pertaining to environmental compliances. Further, the ratings are constrained on account of volatility in the raw material prices and the cyclical nature of the industry.

Price-Fluctuation Risk

The paper industry is highly competitive in nature with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. YPL uses agro-based raw material, which is purchased mainly from the domestic markets and there are limitations due to seasonal availability. Therefore, going forward, the ability of the company to manage its profitability amid volatile raw material prices would be the key rating sensitivity.

Fragmented and competitive industry

The Kraft paper industry is competitive in nature with stiff competition from large number of organized as well as unorganized players (small units account for ~60% of the industry size). Given the fact that the entry barriers to this industry are not very high, the players in this industry do not have pricing power and are exposed to competition.

(Source: Jan 2020 Credit Rating)

2014

The management stated that the company faced raw material issues and highlighted the same in their reports in 2014. The company increased the focus on bagasse as the primary raw material for manufacturing pulp owing to its better availability, cost-effectiveness and higher yield as compared to wheat. Procured bagasse in the form of bales, rather than loose, and stacking them up to a height of 70 feet to reduce damage over time. Entered into tie-ups with sugar mills from Bihar and Uttar Pradesh for procurement of bagasse. During the year the company stocked bagasse for the full year to avoid raw material disruptions.

We have seen a large amount of volatility in the raw materials. Waste paper prices have been increasing due to rupee/ dollar parity, transportation costs and availability. Wood prices have been on the increase mainly on account of availability. We are seeing the quality of timber being used by the industry deteriorate and that is mainly due to the lack of focus in the plantation activities. Some companies have focused on the same and shall benefit in the coming times as fibre shall remain in short supply. There has also been an increase in the agri residue prices

It is clear that raw material shall remain a challenge and each company shall have to work on a long term strategy for the same.

Your company has been planting trees for over 5 years through its sister company Yash Agro and shall be providing further focus on the same. We have also entered new tie ups with sugar mills for procurement of bagasse and should be able to sustain the current year as well. We have stocked bagasse for the entire year and that should help us with stabilizing our costs.

Fuel availability and prices have also been a source of worry for many mills. Coal prices have been rising and quality of domestic coal has always been poor. We see many companies shift to pet coke, however, the same shall also be limited by supply and technologies.

We are again able to sustain this trend by adequately storing rice husk during the season. Adequate stocks provide us with cushioning for the year in regards to fuel availability and prices.

The transportation cost, wood prices, waste paper disparity due to rupee / dollar fluctuations put pressure on the margins the company made during the year. Due to the lack of plantation activities the quality of timber used deteriorated.

2016

The reason for slippage of operating profits for the business were the rise of raw material prices. The company set up an 11.5 TPD capacity for Table wear (disposable) unit in its existing unit (a Brown Field Capex) which they planned to scale up to 23 TPD by 2019. The management put up their efforts to understand the table wear market thought the year. As per the reports the projected size of the Disposable tableware products markets was expected to reach 3800 Crores by 2020. The management got in their new bagasse table wear products division from a reputed Chinese vendor. (Name not mentioned in reports). The company invested Rs 54 crore for the project. The plant made sense as the internally produced bagasse as well as the availability of power and other utilities will ensure raw material security would enable to sustain production with high levels of cost predictability. The company started selling these products under CHUK brand. Also during the year the company did a lot of trials to launch new grades of paper. With CHUK https://www.chuk.in/ the company was targeting the replacement market for disposable table wear from Styrofoam and plastic tableware with compostable and non-carcinogenic tableware. Made from agri waste (sugarcane), these natural products are suitable for use in microwave ovens without adversely impacting human health. Chuk's production capacity is 7-8 lakh units a day, which can be scaled up to 40 lakh pieces a day. It has already tied up with select vendors such as Devyani Group's 'Vaango' quick service restaurant, 'Paradise Biryani' in Hyderabad and 'Bitto Tikka Waala' in Delhi. Since these products are made out of fully compostable bagasse pulp, they are lightweight, flexible and strong, can also withstand microwave heating.

2018

The company automated the complete operations of the pulp mill which helped us in enhancing quality on one hand and enhance productivity on the other. Enhanced the production capacity of PM3 by 785 MT tonnes during this year. The management focused on new variants, enhanced quality of the existing, which helped to strengthen the average realisations. Optimized raw material consumption through reengineering the input mix without compromising the output quality; reduced power consumption; initiated cost saving measures in waste management which significantly saved cost and hence improved margins. Paper is usually made from Wood Based Pulp but here the company focuses on bagasse which is a bi product of sugarcane.

Recent Price Hikes in the industry.

Coal, chemical, transportation costs have increased for all the mills. Due to the shortage of waste paper, the prices of recycled paper manufactured by grade B&C mills have gone up significantly and the increase is much more pronounced than the hikes taken by Grade A mills. The uptick in demand and inflationary trend has led to higher than normal demand at distributor level.

Expansions

Expansion of capacity in moulded products business by about 25% to 14 TPD through the installation of 8 new lines and growth in its integrated pulp mill capacity by about a fifth to 160-TPD to ensure inhouse pulp production for meeting the increased paper and moulded products capacities is under process. Company has planned 50 TPD Pulp Drying, 50 TPD Franchised Moulded production and 100 TPD Flexi pack base with an investment of Rs 200 Cr by FY23. The company has given a road map for them to be able to get 400 crores of PAT by FY 25-26. The company plans to setup pulp mill outside India with 200/250 TPD bagasse capacity. The source of funding for the said projects would be 200 Crore of Debt and balance through equity dilution.

Expansion of Tableware Production :-

The company plans to do a capex of 80 crore in its plant (a brown field expansion) for its table ware products. Out of 80 Crore project cost rs 56 Crore will be funded via debt and balance would be by internal accruals. Hence capitalizing the earlier interest cost was a must to get improvements in the debt metrics of the business.

(Source: Jan 2020 Credit Rating)

Future Road Map given by the company

Roadmap

Particulars	2022-23	2023-24	2024-25	2025-26
Plan	50 TPD Pulp Drying 50 TPD Franchised Moulded production 100 TPD Flexi pack base	250 TPD Pulp line 150 TPD Flexible pack material 100 TPD Market pulp 100 TPD Franchised Moulded Production	Commercial Production mid year	Stabilise project Build market
Investment	200 Cr	500 Cr	-	-
Turnover	**500 Cr**	**700 Cr**	**1500 Cr**	**2500 Cr**
PBT	**100 Cr**	**150 Cr**	**200 Cr**	**400 Cr**

The Companies GOAL 2025

YASH PAKKA
Packaging with a Soul

Global leadership in sustainable packaging alternates

Tonnage in MT			**Goal 2025**			**Amount in INR**		
Moulded Products			Paper for Bags			Compostable Flexible Packaging		
Tonnage	Turnover	Profit	Tonnage	Turnover	Profit	Tonnage	Turnover	Profit
30,000	5 bn	1 bn	80,000	5.6 bn	840 mn	16,500	3 bn	600 mn
Total			**1,26,500**	**13.60 bn**	**2.4 bn**			