09.07.2025

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| **BSE Limited**<br>Phiroze Jeejeebhoy Towers<br>Dalal Street<br>Mumbai 400 001<br>**Scrip Code: 532937**<br>**Scrip ID: KUANTUM** | **National Stock Exchange of India Limited**<br>Exchange Plaza<br>Plot No. C/1, G Block,<br>Bandra-Kurla Complex, Bandra (East)<br>Mumbai 400 051<br>**Trading Symbol: KUANTUM** |

**Sub: Intimation under Regulation 30 of the SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Rating**

Dear Sir/Madam,

Pursuant to Regulation 30 read with Schedule III of SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015, We hereby inform you that India Ratings and Research (Ind-Ra) has, vide its letter dated 08.07.2025, (Copy enclosed), assigned the following credit ratings to the Company's bank facilities and Fixed Deposits:

| Instrument Description | Size of Issue (million) | Rating Assigned along with Outlook/Watch | Rating Action |
|---|---|---|---|
| Term loan | INR 8,539.6 | IND A/Stable | Assigned |
| Fixed deposit | INR 330 | IND A/Stable | Assigned |
| Fund-based working capital limits | INR 1,000 | IND A/Stable | Assigned |
| Non-fund-based working capital limits | INR 1,165.5 | IND A1 | Assigned |

Kindly take the same on record.

Thanking you,
Yours faithfully,
**For Kuantum Papers Limited**

GURINDER SINGH MAKKAR
Digitally signed by GURINDER SINGH MAKKAR
Date: 2025.07.09 10:05:39 +05'30'

**(Gurinder Singh Makkar)**
**Company Secretary & Compliance Officer)**
**M.No.: F5124**

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India Ratings & Research
A Fitch Group Company

# India Ratings Assigns Kuantum Papers's Bank Loans 'IND A'; Outlook Stable

Jul 08, 2025 | Paper & Paper Products

India Ratings and Research (Ind-Ra) has rated Kuantum Papers Limited's (KPL) bank facilities as follows:

## Details of Instruments

| Instrument Description | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating Assigned along with Outlook/Watch | Rating Action |
|---|---|---|---|---|---|---|
| Term loan | - | - | 31 March 2030 | INR8,539.6 | IND A/Stable | Assigned |
| Fixed deposit | - | - | - | INR330 | IND A/Stable | Assigned |
| Fund-based working capital limits | - | - | - | INR1,000 | IND A/Stable | Assigned |
| Non-fund-based working capital limits | - | - | - | INR1,165.5 | IND A1 | Assigned |

## Analytical Approach

Ind-Ra has taken a standalone view of KPL to assign the ratings.

## Detailed Rationale of the Rating Action

The rating factors in KPL's healthy business profile with integrated operations, a diversified feedstock mix and improved operating efficiencies with the investments made over FY20-FY21, which have likely resulted in healthy EBITDA margins and cash flows through the cycle. The EBITDA margins declined in FY25, owing to an industry-wide fall in the sales realisation, driven by an increase in the import of paper; however, the fall was lower than that of the industry average due to the company's dual feedstock mix (wood and agro residues). Nevertheless, the threat of import persists due to geopolitical issues and the consequent movements in domestic prices, is a key monitorable, given its potential impact on profitability and credit metrics.

KPL is in the process of increasing its capacity by 50% over FY26, which is likely to drive growth over the next couple of years, given the company was operating at near-full capacity over FY23-FY25. However, a large capex, coupled with the EBITDA fall led to a rise in the net leverage in FY25 (FY24: 1.3x). The leverage is likely to remain elevated in FY26, after which the gradual ramp-up of the added capacity will lead to deleveraging and aid the improvement in scale of operations in FY27. With the improvement in EBITDA, Ind-Ra also expects liquidity buffers to strengthen. The ratings are also constrained by the inherent cyclicality in the industry and the lack of pricing power, which makes the profitability of the entities susceptible to fluctuations in raw material as well as paper prices.

## List of Key Rating Drivers

**Strengths**

- Healthy business profile with integrated operations
- Capex to drive volume growth
- Dual feedstock and operating efficiencies to keep margins healthy despite import threat

**Weaknesses**

- Elevated leverage over FY25-FY26 owing to capex; improvement likely with ramp-up in FY27
- Cyclical industry

## Detailed Description of Key Rating Drivers

**Healthy Business Profile with Integrated Operations:** KPL is a large, integrated manufacturer of writing & printing paper with a capacity of 164,250 metric tonne per annum (MTPA) at end-March 2025, and an operating track record of four decades. While the paper industry is fragmented, the number of integrated players with a scale as large as that of KPL is limited as high capital investment, technical expertise, gestation period and raw material procurement challenges restrict the entry of players in the industry. KPL's plant is located at Hoshiarpur (Punjab), which has adequate availability of wheat straw, wood chips and veneer waste to meet the company's raw material requirements. As a result, KPL meets 95% of its pulp requirement domestically with the balance being imported to meet the soft pulp requirement. The company has a fully integrated manufacturing facility, with an in-house pulp manufacturing capacity of 138,700mtpa. It also has a captive power generation plant of 38MW to meet 100% of KPL's power requirement and a chemical recovery plant of 700TPD which allows the recovery and recycling of more than 95% of the required caustic soda, which is an expensive pulping agent and is used to cook and convert raw material into a pulp.

**Capex to Drive Volume Growth:** KPL's sale volumes grew at a modest CAGR of 2% over FY23-FY25, given the full utilisation of its capacity (FY25: 102%, FY24: 96%, FY23: 101%). However, KPL is increasing its paper capacity by 50% to 246,375mtpa in a phased manner by March 2026. While Ind-Ra expects growth to remain muted in FY26 with incremental volumes from the phased additions offsetting the loss emanating from the shutdowns for realignment, sale volumes are likely to rise over FY27-FY28 as the enhanced capacity ramps-up. Ind-Ra believes the fundamental demand prospect for paper remains stable over the medium term, given its under penetration across segments. The demand for paper in the education sector will continue to grow with an increase in literacy rate, aiding the ramp-up of KPL's additional capacities. While the pace of ramp-up would be a monitorable, Ind-Ra also takes comfort from KPL's ability to achieve 100% utilisation in FY22 after increasing its capacity by 15% in the COVID-affected FY21.

**Dual Feedstock and Operating Efficiencies to keep Margins Healthy Despite Import Threat:** Raw material costs account for 60%-70% of the total cost of paper mills and the profitability is therefore highly dependent on feedstock prices. KPL has a diversified raw material base consisting of wood and agricultural residue (wheat straw), both of which have different demand-supply dynamics. Over the past two decades, the wood panel and paper industries have collaborated with farmers to promote large-scale plantations of fast-growing species, such as Poplar and Eucalyptus, to address the growing wood demand. However, the limited plantation activity during 2020-2021 due to the COVID-19 pandemic has resulted in a reduced wood supply, driving up domestic wood prices in recent times. While the prices of wood remained elevated over FY24-FY25 on account of an increasing demand and low supply, the prices of wheat straw recorded a substantial reduction over the said period with increased wheat production in Punjab, which cushioned the decline in KPL's profitability. KPL recorded a fall of around 550bp to 22% in FY25, lower than the industry average as only a few players operate on dual feedstock. Ind-Ra expects the wood availability in India to improve over the next year, as the first harvest from post-COVID plantations starts in FY26. While this is likely to ease some pressures on wood prices, the prices are unlikely to return to the previous lows in near term.

KPL has a track record of consistently investing and upgrading its plant to optimise the plant efficiencies and improve profitability. Various measures such as increasing captive power consumption, adding a new chemical recovery plant for the treatment of black liquor and the recovery of caustic soda, the upgradation of paper and pulping mills taken during FY20-FY21 led to the improvement in operating efficiencies. KPL has also been able to substantially reduce its dependency on imported pulp to just about 5% in recent years from around 30% pre-COVID. 95% of the pulp requirement is met in-house with a mix of agro and wood-based pulp. These measures are likely to enable KPL to generate healthy profitability through the cycle, improving its mid-cycle EBITDA/kg from the last decadal average of around INR12-13/kg (FY25: INR15/kg).

However, KPL's profitability remains exposed to fluctuations in paper prices that saw a downward pressure over FY24-FY25 due to rising imports. The sales realisation declined to INR79.2/kg in FY24 (from the supernormal high of INR87.4/kg in FY23, FY22: INR54.7/kg) and further to INR68.8/kg in FY25, due to increased imports from China and ASEAN countries compelling domestic manufacturers to reduce prices. As a result, after registering a decadal high of INR25.3/kg in FY23 (FY22: INR7.8/kg), KPL's EBITDA/kg continued to fall to INR15.1 in FY25 (FY24: INR21.8/kg) resulting in the EBITDA declining 27% yoy to INR2.4 billion. While realisation recovered marginally to INR66.8/kg in 4QFY25 (3Q: INR65.1/kg, 2Q: INR67.7/kg), Ind-Ra believes the threat of imports affecting domestic paper prices looms, particularly with the possibility of the US tariffs on China leading to supply realignment and keeping prices under pressure. As a result, notwithstanding some sequential recovery in FY26 than the levels of FY25, Ind-Ra believes KPL's EBITDA will remain lower than the level witnessed in FY24. However, with the ramp-up of the additional capacities, EBITDA will improve materially in FY27.

**Elevated Leverage over FY25-FY26 owing to Capex; Improvement Likely with Ramp-up in FY27:** With a strong EBITDA generation of around INR3.5 billion over FY23-FY24 (FY24: INR3.3 billion, FY23: INR3.8 billion), KPL's debt metrics improved significantly during the period. After being high at 6.4x in FY22, KPL's net leverage improved to 1.3x in FY23 and stayed at the level in FY24. However, with the fall in EBITDA and the capex spend on its expansion project, the net leverage rose to 2.7x in FY25. KPL is in the process of completing its expansion project at a total cost of INR7.35 billion, funded by a mix of internal accruals and debt of INR5.3 billion which has already been tied-up. Of the total cost, around INR3.3 billion was incurred at FYE25 with the balance to be incurred in FY26. Consequently, the net leverage is likely to remain elevated in FYE26 with a reduction likely FY27 onwards with ramp-up in additional capacities and the absence of any other large capex. The interest coverage ratio remained healthy at 6.2x in FY25 (FY24: 7.8x, FY23: 5.3x) and is likely to remain at comfortable levels in the near term as well. According to the management, FY25-FY26 will witness the peak leverage after which it will improve.

**Cyclical Industry:** The paper industry is cyclical in nature and players are exposed to volatility in raw material prices, as well as the threat of imports, which could prevent companies from passing on increases in raw material prices to customers. Another year of downcycle in the industry may impact the profitability of KPL and could put pressure on its liquidity and thus price recovery/stability remains a key monitorable. Furthermore, lumpy capacity additions that are not commensurate with demand growth could exert an upward pressure on raw material prices and downward pressure on finished product prices, leading to a weakening of the profit margins.

## Liquidity

**Adequate:** KPL's cash flows have demonstrated resilience during economic downturns, with the cash flow from operations (CFO) remaining positive over the last 10 years (except for FY22, FY25: INR1.4 billion, FY24: INR2.5 billion). Ind-Ra expects the CFO to remain robust in the medium term, supported by healthy EBITDA margins and a moderate working capital cycle. However, in addition to the CFO, the company has needed additional borrowings to meet its capex requirements towards expansion and upgradation of the plant and the trend is likely to continue in FY26. Ind-Ra expects the free cash flow to turn positive in FY27 (FY25: negative INR2.0 billion) with the completion of capex and ramp-up in operations.

KPL has scheduled repayment obligations of INR1.4 billion and INR1.7 billion in FY26 and FY27, respectively, which are likely to be funded by internal accruals. KPL does not maintain any sizeable free cash balance and relies on unutilised limits for any exigency. KPL's average use of the fund-based working capital limit was about 70% for the 12 months ended May 2025, indicating a moderate cushion and KPL has adequate drawing power to avail from unutilised limits. At FYE25, the company had a modest free cash balance of INR92 million (FYE24: INR706 million, FYE23: INR15 million). The management plans to maintain liquidity buffer of around INR500 million on a sustained basis.

## Rating Sensitivities

**Positive:** A significant and sustained growth in the scale and profitability, along with a strengthening of liquidity position and credit metrics with net leverage reducing below 2.0x, on a sustained basis, will be positive for the ratings.

**Negative:** A delay in the ramp-up of additional capacity and/or a lower-than-Ind-Ra-expected profitability and/or a higher-than-expected capex, leading to a weakening of the liquidity position and/or credit metrics with the net leverage exceeding 2.75x on a sustained basis, will be negative for the ratings.

## Any Other Information

Not applicable

## About the Company

Incorporated in 1997, KPL manufactures writing, printing and specialty papers at its plant located at Hoshiarpur, Punjab with a total capacity of 450TPD as of 31 March 2025. KPL uses agro residues such as wheat straw along with wood chips, veneer waste & bamboo as its key raw materials.

KPL started its commercial operation in 1980; however, the entity was incorporated in 1997 under the name of 'ABC Paper Limited', which was renamed Kuantum Papers Limited in 2012.

## Key Financial Indicators

| Particulars (INR million) | FY25 | FY24 |
|---|---|---|
| Revenue | 11,070 | 12,113 |
| EBITDA | 2,426 | 3,331 |
| EBITDA margin (%) | 21.9 | 27.5 |
| Interest coverage (x) | 6.2 | 7.8 |
| Net leverage (x) | 2.7 | 1.3 |
| Source: KPL, Ind-Ra | | |

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type | Rating Type | Rated Limits (million) | Current Rating/Outlook |
|---|---|---|---|
| Term loan | Long-term | INR8,539.6 | IND A/Stable |
| Fixed deposit | Long-term | INR330 | IND A/Stable |
| Fund-based working capital limits | Long-term | INR1,000 | IND A/Stable |
| Non-fund-based working capital limits | Short-term | INR1,165.5 | IND A1 |

## Bank wise Facilities Details

The details are as reported by the issuer as on (08 Jul 2025)

| # | Bank Name | Instrument Description | Rated Amount (INR million) | Rating |
|---|---|---|---|---|
| 1 | HDFC Bank Limited | Term loan | 1250 | IND A/Stable |
| 2 | HDFC Bank Limited | Term loan | 33.2 | IND A/Stable |

| | | | | |
|---|---|---|---|---|
| 3 | Canara Bank | Term loan | 700 | IND A/Stable |
| 4 | Indian Bank | Term loan | 406.3 | IND A/Stable |
| 5 | RBL Bank | Term loan | 1272.5 | IND A/Stable |
| 6 | State Bank of India | Term loan | 2789.8 | IND A/Stable |
| 7 | Yes Bank Ltd | Term loan | 1759 | IND A/Stable |
| 8 | Bajaj Finance | Term loan | 328.8 | IND A/Stable |
| 9 | Indian Bank | Fund-based working capital limits | 250 | IND A/Stable |
| 10 | State Bank of India | Fund-based working capital limits | 400 | IND A/Stable |
| 11 | NA | Fund-based working capital limits | 100 | IND A/Stable |
| 12 | Indian Bank | Fund-based working capital limits | 250 | IND A/Stable |
| 13 | Yes Bank Ltd | Non-fund-based working capital limits | 130 | IND A1 |
| 14 | State Bank of India | Non-fund-based working capital limits | 300 | IND A1 |
| 15 | Indian Bank | Non-fund-based working capital limits | 170 | IND A1 |
| 16 | NA | Non-fund-based working capital limits | 500 | IND A1 |
| 17 | State Bank of India | Non-fund-based working capital limits | 65.5 | IND A1 |

## Complexity Level of the Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| Fixed deposit | Low |
| Fund-based working capital limits | Low |
| Non-fund-based working capital limits | Low |
| Term loan | Low |

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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## APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Corporate Rating Methodology

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

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