ThreE-M-Paper Manufacturing Company Private Limited

February 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	58.17 (Enhanced from 21.04)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1.00	CARE A3 (A Three)	Assigned
Short Term Bank Facilities	1.00 (Reduced from 15.00)	CARE A3 (A Three)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	**60.17 (Rs. Sixty Crore and Seventeen Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Three M Paper Manufacturing Company Private Limited continue to factor in the experienced promoters and long track record of the company's operations in the paper industry, wide applicability of paper boards ensuring steady demand as well as moderate working capital cycle of the company. The rating also factors in moderate revenue, profitability margins, moderate capital structure and debt coverage indicators.
The above strengths are however offset by susceptibility of profit margins susceptibility to volatility in raw material prices, competitive market scenario and exposed to foreign currency fluctuations risk.

Rating Sensitivities
Positive Factors - Factors that could lead to positive rating action/upgrade:
- Increase in scale of operations above Rs.250 crore on a sustainable basis
- Improvement in PBILDT margins above 12% on a sustainable basis
- Improvement in overall gearing below unity on a consistent basis

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Decrease in PBILDT margins below 6% on a sustainable basis
- Deterioration in operating cycle of more than 80 days with increase in utilization of working capital borrowings

Detailed description of the key rating drivers
Key Rating Strengths
Experienced promoters and long track record of the company's operations: The company's promoter, Mr Hitendra Shah, is associated with the paper industry for more than two decades having a wide experience in marketing, management & administration and has got in-depth knowledge of the paper industry. His son, Mr Rushabh Shah (B.E. from UK), looks after production factory co-ordination and, marketing of the products. Furthermore, they are assisted by a team of qualified professionals in technical, administrative, finance and marketing fields.

Moderate revenue and profitability margins: The company's total operating income decreased by 11.46% on Y-o-Y basis from Rs.189.24 crore in FY20 to Rs.167.56 crore in FY21 owing to plant remaining shut down in the first quarter of FY21. Even while paper industry's operations resumed with reduced capacities as restrictions eased, challenges remained in terms of logistics disruption and migration of labour. In addition to this, subdued demand from consumers also impacted sales.
Moreover, the tangible networth of the company remained at Rs.37.34 crore as on March 31, 2021 (vis-à-vis Rs.35.60 crore as on March 31, 2020) with GCA level of Rs.7.55 crore in FY21 (vis-à-vis Rs.4.47 crore in FY20).
Although, PBILDT margin has improved from 6.15% in FY20 to 8.65% in FY21 on account of lower power & fuel cost, other manufacturing expenses and employee cost during the year. Owing to improved operating margins, the PAT margin has improved from losses of Rs.3.05 crore in FY20 to profit of Rs.1.73 crore in FY21.

Moderate capital structure and debt coverage indicators: The company's overall gearing remained moderate at 1.43 times as on March 31, 2021 (1.54 times as on March 31, 2020). The same has improved marginally owing to lower debt outstanding as on balance sheet date and higher networth due to accruals during the year. The debt coverage indicators also remained moderately comfortable.

Moderate working capital cycle: The company's operating cycle continues to be moderate with average working capital cycle of around 41 days in FY21 as compared to 37 days in FY20. The collection period remained at 60 days in FY21 vis-à-vis 53 days in FY20. The company generally gives credit period to customer of 30-90 days depending upon the order and it has marginally deteriorated owing to slow recovery of debtors as industry was affected by Covid – 19 pandemic related closures.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company manages working capital requirements through short term working capital loans from banks as a result of which utilisation of working capital limits has remained on higher side.

Wide applicability of duplex paper boards: The company manufactures and sells coated/uncoated duplex paper boards which are used for packaging in pharmaceuticals and fast-moving consumer goods companies in segments such as cosmetics, health care, readymade garments, instant food, match-boxes, incense sticks, cigarette, etc. Wide applicability of the manufactured product ensures limited impact of cyclicality of end user industry resulting in assured demand offtake.

Key Rating Weaknesses
Profit margins susceptibility to volatility in raw material prices: The company is engaged in manufacturing of duplex paper from wastepaper of which 25%-35% is imported from USA and Europe. The raw material costs accounts for around 35%-50% of total operating costs. Moreover, the paper board industry has large number of organised and unorganised players which limits company's ability to pass on increase in raw material prices to end users.

Exposed to foreign currency fluctuations risk: In FY21, the company derived around Rs.57.01 crore from exports of products. The company exports its products to customers based in Bangladesh, Sri Lanka, Vietnam, Singapore, Taiwan and Cambodia. Import of raw materials resulted in forex outflow of Rs.46.37 crore resulting into major portion of imports being naturally hedged against exports of its products. However, any adverse movement in the foreign currency rates may impact the company's profit margins. During FY21, the company had foreign exchange gain of Rs.0.21 crore (vis-à-vis 0.61 crore in FY20).

Liquidity: Adequate
The liquidity position remained adequate marked by cushion in accruals vis-à-vis repayment obligations and cash balance of Rs.0.12 crore as on March 31, 2021. Its cash credit limits is average utilized at 92.62% and maximum utilized at 98.40% during past twelve months ended December, 2021. Further, the current ratio and quick ratio stood low at 0.99 times and 0.60 times respectively as on March 31, 2021 vis-à-vis 0.93 times and 0.53 times respectively as on March 31, 2020. The cash flow from operations was positive at Rs.10.58 crore in FY21 (vis-à-vis positive at Rs.14.40 crore in FY20).

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Manufacturing Companies
Rating Methodology – Paper Industry
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Three M Paper Manufacturing Company Private Limited (TMPM) was incorporated in 1989 and is engaged in manufacturing of coated/uncoated duplex paper boards used for packaging in pharmaceuticals and fast-moving consumer goods companies in segments such as cosmetics, health care, readymade garments, instant food, matchboxes, incense sticks, cigarette, etc.
TMPM's manufacturing facility is located at Kheri-Chiplun (near Ratnagiri) with an installed capacity of 66,000 tonnes per annum (TPA) to manufacture duplex paper board made from recycled wastepaper. TMPM procures recycled wastepaper and chemicals primarily from the domestic market (around 73% in FY19) through various dealers and agents. The manufacturing is largely backed by confirmed orders from various distributors, agents and dealers, who in turn have tie-ups with converters that carry out printing jobs for the end-user customers.
In FY14, the company set up a 4 MW coal based captive power plant for its energy requirements.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	189.24	167.56	208.00
PBILDT	11.64	14.50	15.77
PAT	-3.05	1.73	5.62
Overall gearing (times)	1.54	1.43	NA
Interest coverage (times)	1.66	2.20	3.92

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	26.17	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	32.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	1.00	CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	26.17	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-21)	-	1)CARE BBB-; Stable (26-Mar-20)	1)CARE BB+; Positive (15-Mar-19)
2	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-21)	-	1)CARE BBB-; Stable (26-Mar-20)	1)CARE BB+; Positive (15-Mar-19)
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A3	1)CARE BBB-; Stable / CARE A3 (06-Apr-21)	-	1)CARE BBB-; Stable / CARE A3 (26-Mar-20)	-
4	Non-fund-based - ST-Credit Exposure Limit	ST	1.00	CARE A3				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Non financial covenants	
1. Stock and book debt audit	Stock and book debt audit to be conducted every year and the applicable fees to be recovered from the company.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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