# Three M Paper Manufacturing Company Private Limited

April 06, 2021

**Ratings**

| Facilities | Amount (Rs. Crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities – Term Loan | 6.04 (reduced from 6.46) | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | **Reaffirmed** |
| Long Term Bank Facilities - Fund Based | 15.00 | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | |
| Long-term/Short-term Bank Facilities-Non Fund based | 15.00 | **CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)** | |
| **Total Facilities** | **36.04 [Thirty six crore four 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 established track record of the company along with extensive experience of the promoters 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 considers the improvement in operational as well as financial performance of the company during 9MFY21 with easing of lockdown across various parts of the country and improvement in the demand of packaging boards.

The above strengths are however tempered by susceptibility of profit margins to volatility in raw material prices and forex fluctuations as well as low entry barriers with high competition from organized and unorganized players.

Rating Sensitivities:

*Positive*

- *Improvement in PBILDT margins above 12% on a sustainable basis through increase in sales volume*
- *Decline in overall gearing below unity on a consistent basis*

*Negative*

- *Decrease in PBILDT margins below 6% on a continued basis*
- *Increase in overall gearing above 1.60 times on a consistent basis on account of debt funded capex or increase in working capital borrowing*

**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 4.60% on Y-o-Y basis from Rs.198.36 crore in FY19 to Rs.189.24 crore in FY20. The PBILDT margin also declined from 7.68% in FY19 to 6.15% in FY20 on account of lower sales volume coupled with decrease in sales realizations. The company's operations were adversely affected by the lockdown imposed to contain the spread of Covid-19.

The company recorded revenue from operations of Rs.98.66 crore in 9MFY21 and PBILDT margins stood at 8.14%. The operations of the company were affected adversely in the first half of the current year due to disruption of local supply chain as well as labour shortage at unloading sites led by the pandemic aftermath. However, Q3FY21 was better in terms of sales as the economic activity picked up which led to improvement in demand.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

***Moderate capital structure and debt coverage indicators:*** The company's overall gearing slightly remained stable at 1.54 times as on March 31, 2020 (1.52 times as on March 31, 2019). As on March 31, 2020, total debt includes term loan from banks/FIs of Rs. 11.33 crore, loans of related parties of Rs. 21.45 crore and working capital of Rs. 21.99 crore. However, total debt to gross cash accruals increased from 6.86 times in FY19 to 12.25 times in FY20. Deterioration in debt coverage indicators in FY20 is mainly due to slight increase in interest expenses as well as losses during the year. Overall gearing increased to 1.61 times as on December 31, 2020 mainly due to increase in working capital borrowings.
***Moderate working capital cycle:*** The company's operating cycle continues to be moderate with average working capital cycle of around 37 days as on March 31, 2020 as compared to 35 days as on March 31, 2019. The marginal increase in the working capital cycle was on account of lower creditors period. The company manages working capital requirements through short-term working capital borrowings from banks because of which utilisation of working capital limits has remained on higher side.
***Wide applicability of duplex paper boards; ensuring assured demand offtake:*** 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 and competitive market scenario:*** 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 60%-65% of total operating costs. Moreover, the paper board industry has large number of 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 FY20, the company derived around Rs.43.55 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.43.20 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 FY20, the company had foreign exchange gain of Rs.0.61 crore (P.Y:0.59 crore).
***Industry Outlook***
The Indian paper and paper industry has continued to witness steady growth in FY20, and the domestic demand grew from 9.3 million tonnes in FY08 to 18.6 million tonnes in FY20 at a CAGR of 6.4%. However, subdued and diverse trading conditions caused by geopolitical uncertainties including the current coronavirus outbreak have impacted the overall global demand. With the ongoing vaccination program in India and with people now adapting to Covid-19 norms and environment, it is expected that the sales of paper & paper products industry will witness an uptick during FY22 on y-o-y basis backed by better paper demand and increase in its prices.
The packaging segment has witnessed better demand compared to other segments during the Covid-19 induced lockdown period and thereafter in FY21, is expected to grow in FY22 backed by an increase in economic activities during the year. The paper & paper products industry is also likely to see further price increases during FY22 on account of returning demand and higher input prices.

Liquidity: Adequate
The company's liquidity position remains adequate marked by adequate gross cash accruals against scheduled repayment obligations over medium term. The company is expecting gross cash accruals of around Rs.7 crore in FY21; sufficient for debt repayments over medium term. Moreover, the company does not plan to avail any additional term loan for capex requirements over medium term which provides additional cushion.

**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) | FY20 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 189.24 | 198.36 |
| PBILDT | 11.64 | 15.24 |
| PAT | -3.05 | 4.68 |
| Overall gearing (times) | 1.54 | 1.52 |
| Interest coverage (times) | 1.66 | 2.27 |

*A: Audited; Classified as per CARE Standards*

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

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

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | - | 6.04 | CARE BBB-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 15.00 | CARE BBB-; Stable |
| Fund-based/Non-fund-based-LT/ST | - | - | - | 15.00 | CARE BBB-; Stable / 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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | 6.04 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (26-Mar-20) | 1)CARE BB+; Positive (15-Mar-19) | 1)CARE BB+; Stable (30-Mar-18)<br>2)CARE BB+; Stable (10-Apr-17) |
| 2. | Fund-based - LT-Cash Credit | LT | 15.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (26-Mar-20) | 1)CARE BB+; Positive (15-Mar-19) | 1)CARE BB+; Stable (30-Mar-18)<br>2)CARE BB+; Stable (10-Apr-17) |
| 3. | Fund-based/Non-fund-based-LT/ST | LT/ST | 15.00 | CARE BBB-; Stable / CARE A3 | - | 1)CARE BBB-; Stable / CARE A3 (26-Mar-20) | - | - |

**Annexure 3: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Fund-based - LT-Term Loan | Simple |
| 3. | Fund-based/Non-fund-based-LT/ST | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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