ThreE-M-Paper Manufacturing Company Private Limited

December 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	59.90 (Enhanced from 58.17)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.50 (Enhanced from 2.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**62.40** **(₹ Sixty-Two Crore and Forty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Three M Paper Manufacturing Company Private Limited (TMPM) continue to derive strength from 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 further continue to derive strength from 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:

- 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:

- Deterioration in operating cycle of more than 80 days with increase in utilization of working capital borrowings
- Deterioration in capital structure by any debt funded capex undertaken
- Non-receipt of the projected insurance claim filed in FY23 against the occurrence of flood in the factory

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters and long track record of the company's operations
TMPM'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. Furthermore, they are assisted by a team of qualified professionals in technical, administrative, finance and marketing fields.

Moderate scale of operation
TMPM's total operating income grew by 88.72% on Y-o-Y basis from Rs. 167.56 crore in FY21 to Rs. 319.07 crore in FY22 owing to increase in quantity of goods sold (sale of 61,431 MTPA in FY22 vis-à-vis sale of 47,151 MTPA in FY21) due to increase in number of export and domestic orders from existing and new clients.
Growth was primarily from manufacturing income coupled with increase in the other income (export incentive and forex gain).
Furthermore, TMPM has already booked Rs. 218.22 crore during H1FY23.
Moreover, despite the growth in scale of operation, the tangible networth of TMPM remained modest at Rs. 40.54 crore as on March 31, 2022 (vis-à-vis Rs. 37.34 crore as on March 31, 2021) with GCA level of Rs.9.37 crore in FY22 (vis-à-vis Rs. 7.55 crore in FY21).

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

Moderate profitability margins
Operating margin has reflected a fluctuating trend in the past due to volatility in the raw material prices (which accounts for around 55% of the total cost).
During FY22, despite the improvement in total income and realization, PBILDT margin declined from 8.65% in FY21 to 5.44% in FY22 on account of significant increase in material cost from Rs. 19097 per MT in FY21 to Rs. 29353 per MT in FY22 coupled with increase in other expenses (power & fuel cost, other manufacturing expenses and employee cost). The PAT margin also declined marginally from 1.03% in FY21 to 1.00% in FY22 in line with decline in PBILDT margin coupled with high interest and depreciation expenses.
Moderate capital structure and debt coverage indicators
TMPM's overall gearing deteriorated to 1.92 times as on March 31, 2022 (1.43 times as on March 31, 2021). The same has deteriorated marginally owing to higher debt outstanding as on balance sheet date and higher networth due to accruals during the year. The new term loan was availed to fund the short term requirements which were affected by the loss due to floods in its Ratnagiri plant.
The debt coverage indicators also deteriorated with total debt to GCA and PBILDT interest coverage ratio at 8.33 times and 2.41 times as on March 31, 2022 vis-à-vis 7.09 times and 2.20 times as on March 31, 2021. The same deteriorated owing to higher accruals during the year and higher debt outstanding as on balance sheet date.
Moderate working capital cycle
TMPM's operating cycle improved with average working capital cycle of around 26 days in FY22 as compared to 41 days in FY21, owing to improvement in collection period, inventory days and creditor period. The collection period improved to 43 days in FY22 vis-à-vis 60 days in FY21. TMPM generally gives credit period to customer of 30-90 days depending upon the order. TMPM's inventory days declined to 32 days in FY22 vis-à-vis 70 days in FY21. TMPM has to maintain inventory for continuous manufacturing requirement. The creditors days improved to 49 days in FY22 vis-à-vis 89 days in FY21.
Wide applicability of duplex paper boards
TMPM 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, matchboxes, incense sticks, cigarette, etc. Wide applicability of the manufactured product ensures limited impact of cyclicality of end user industry resulting in assured demand offtake.
Adherence to ESG norms
A large amount of water as well as various chemicals are used for manufacturing paper and paper products. Therefore, TMPM belongs to a polluting industry since it is exposed to varying degrees of regulatory oversight, including environmental standards in terms of scrutiny of disposal of raw material wastes and level of carbon emissions.
TMPM has a certificate from Maharashtra Pollution Control Board (MPCB) regarding the environmental standards to be complied with. Further there is zero discharge of effluents and for water reuse, TMPM has set up a water treatment plant.

Key rating weaknesses

Floods in Ratnagiri plant and insurance claim receivable
TMPM suffered losses of Rs. 15 crores due to floods in their factory premises in Ratnagiri district in July 2021. TMPM has filed insurance claim of Rs. 19 crores and expects to receive an insurance claim of around Rs. 15-16 crores. TMPM has booked inventory loss in FY22 and will book the actual loss in FY23.
Profit margins susceptibility to volatility in raw material prices
TMPM is engaged in manufacturing of duplex paper from wastepaper of which 30%-40% is imported from USA and Europe. The raw material costs accounts for around 65% of total operating costs. Moreover, the paper board industry has large number of organised and unorganised players which limits TMPM's ability to pass on increase in raw material prices to end users.
Exposed to foreign currency fluctuations risk
In FY22, TMPM derived around Rs. 158.00 crore (50.49% of total sales) from exports of products. TMPM exports its products to customers based in Bangladesh, Sri Lanka, Vietnam, Singapore, Taiwan and Cambodia. Major portion of TMPM's imports is naturally hedged against exports of its products. However, any adverse movement in the foreign currency rates may impact TMPM's profit margins. During FY22, TMPM had foreign exchange gain of Rs. 2.67 crore (vis-à-vis 0.21 crore in FY21).

Liquidity: Adequate
The liquidity position remained adequate marked by cushion in accruals vis-à-vis repayment obligations and cash balance of Rs. 1.27 crore as on March 31, 2022. The average maximum and average utilization stood at 83.08% and 75.61% respectively for last twelve months ended September 30, 2022. Further, the current ratio and quick ratio stood at 1.20 times and 0.97 times respectively as on March 31, 2022 vis-à-vis 0.99 times and 0.60 times respectively as on March 31, 2021. The cash flow from operations was negative at Rs. 10.45 crore in FY22 (vis-à-vis positive at Rs. 10.58 crore in FY21).

Analytical approach: Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Paper Industry

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 72,000 tonnes per annum to manufacture duplex paper board made out of recycled wastepaper and pulp. TMPM procures recycled wastepaper and chemicals from the domestic market (around 40% in FY22) 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	167.56	319.07	218.22
PBILDT	14.50	17.36	NA
PAT	1.73	3.19	NA
Overall gearing (times)	1.43	1.92	NA
Interest coverage (times)	2.20	2.41	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	32.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31/10/2029	27.90	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	1.50	CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	27.90	CARE BBB-; Stable	-	**1)CARE BBB-; Stable** (03-Feb-22) 2)CARE BBB-; Stable (06-Apr-21)	-	1)CARE BBB-; Stable (26-Mar-20)
2	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (03-Feb-22) 2)CARE BBB-; Stable (06-Apr-21)	-	1)CARE BBB-; Stable (26-Mar-20)
3	Non-fund-based - ST-Bank Guarantee	ST	1.50	CARE A3	-	1)CARE A3 (03-Feb-22) 2)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	-	1)CARE A3 (03-Feb-22)	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Non-financial covenants	
I. 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
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Credit Exposure Limit	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 instruments: CARE Ratings 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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About us:
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