

Lemit Papers LLP

January 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	115.00 (Enhanced from 95.00)	CARE BB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	3.60	CARE BB-; Stable / CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Lemit Papers LLP (LPL) considers commencement of operations from October, 2022 (earlier envisaged August, 2022), leveraged capital structure, stretched liquidity and its constitution as a partnership firm. The ratings are also constrained on account of susceptibility of profitability to volatile raw material prices and foreign exchange (forex), environmental risk associated with paper mills and its presence in a highly competitive & fragmented paper packaging industry. The ratings, however, derive strength from extensive experience of partners across varied industries, infusion of funds by partners in current year reflecting positive commitment from partners and good growth prospects for the paper packaging industry. The ratings also take into consideration moderation in current year performance compared to previously envisaged financials.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income exceeding Rs.250 crore and PBILDT margin above 7% on sustained basis
- Improvement in overall gearing below 1.75x on sustained basis

Negative factors

- Lower than envisaged sales and profitability in projected period
- Deterioration of overall gearing above 2x due to additional debt funded capex

Analytical approach: Standalone

Key weaknesses

Commencement of operations from October, 2022

LPL has setup 120,000 metric tonnes per annum (MTPA) Duplex Board Paper manufacturing facility in Morbi, it got operational in October, 2022 (earlier envisaged August, 2022). Firm has achieved TOI of Rs.7.74 cr. till December 08, 2022 and is expected to achieve TOI of around Rs.90 cr by FY23 (lower than earlier envisaged). Achievement of expected TOI and scaling up of operations shall remain key rating monitorable.

Leveraged Capital Structure

The firm has setup the project at a total cost of ~Rs.139.50 crore funded through a mix of term loan, partners' fund, and unsecured loans from partners. The project debt to equity remained leveraged at 1.16x, considering unsecured loans from promoters as quasi-equity. Furthermore, firm's capital structure is likely to remain leveraged in near to medium term with debt availed for capex, along with expected moderate utilization of working capital borrowings with scaling of operations and limited networth base.

Susceptibility of profitability to volatile raw material prices and forex rates

The key raw material used in manufacturing of Duplex paper boards is wastepaper, which forms the major portion of the raw material in the paper packaging industry. The price of wastepaper is driven by global demand-supply dynamics and is subject to price volatility, as India also imports waste paper for processing. Furthermore, profitability also remains vulnerable to volatility in prices of chemicals and fuel. Thus, operating profitability of the entity shall largely be driven by its ability to pass on any increase in raw material prices to the end users, along with forex hedging strategy.

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

Environment risk associated with paper mills

Water is a key element in the production of paper as it is consumed in major processes like raw material cleaning and pulp mill. Paper manufacturing process leads to generation of high volume of effluents as major proportion of water intake is discharged as effluent. LPL's manufacturing facility consume wastepaper as a key raw material and in order to ensure required treatment of waste water released from the plant, LPL's facility includes an effluent treatment plant (ETP) with a zero-discharge facility - which lowers the risk associated with environment.

Highly competitive & fragmented industry albeit stable demand outlook

Indian paper and paper board industry is highly fragmented with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers in terms of flexibility to pass on the raw material price fluctuation to its customers. With restoration in economic and e-commerce activities post covid-19 demand outlook is expected to remain stable in near to medium term.

Constitution as a Partnership entity

Being a partnership firm, LPL is exposed to inherent risk of partners' capital being withdrawn at time of personal contingency, and firm being dissolved upon the death/retirement/insolvency of partners.

Key strengths**Extensive experience of promoters across varied industries**

Although partners of LPL do not have prior experience of duplex paper board manufacturing, they have 5 to 15 years of experience across ceramic and tiles manufacturing industry with these units having proximity to LPL, being located in and around Morbi.

Good growth prospects for paper packaging industry

The paper packaging industry more specifically coated duplex papers and boards have variety of end use application in household products, FMCG, pharmaceuticals, cosmetics and many more industries. Demand has started picking up with increase in economic activities as well as increased demand from ecommerce sector. In addition, the firm is expected to generate exports revenue, potential for which also remains affirmative owing to favourable international demand scenario. Also, with a sizeable capacity of 1,20,000 metric tonne per annum (MTPA), the firm is expected to generate moderate scale of operations, which however shall remain a key rating monitorable. Currently, firm has achieved TOI of Rs.7.74 cr till December 08, 2022, with plant being operational from October 2022.

Liquidity: Stretched

Liquidity profile of the firm is likely to remain stretched owing to limited capacity utilisation envisaged in FY23 (FY refers to period April 1 to March 31) – its first year of operations depending upon the stabilisation level achieved post operations. Further, as per lender interaction average utilization of its fund-based limits remains around 75% for past 5 months ended December, 2022. With term loan repayments to commence from Q1FY24, operating cash flow generated by the firm and timely need-based support from the promoters in case of any exigency would remain a key rating monitorable (which we have observed during the current year)

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](#)

About the firm

LPL is a partnership firm, established in Morbi, Gujarat, for manufacturing of coated Duplex Paper Board (white and grey backed), which finds application across various industries for its packaging requirement. The plant is being setup at Khakrechi, near Morbi, with installed capacity of 120,000 Metric Tonnes Per annum (MTPA) and got operationalized in October 2022. Partners of the firm have proven experience in ceramics and tiles industry.

Brief Financials (₹ crore)	FY22 (Audited)	9MFY23 (Prov.) (till Dec, 2022)
Total operating income	NA	7.74
PBILDT	NA	1.24
PAT	0.03	NA
Overall gearing (times)	1.04	NA
Interest coverage (times)	NA	NA

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

Status of non-cooperation with previous CRA: Not Applicable

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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		-1s	-	-	40.00	CARE BB-; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	3.60	CARE BB-; Stable / CARE A4
Term Loan-Long Term		-	-	March 2030	75.00	CARE BB-; Stable

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	Term Loan-Long Term	LT	75.00	CARE BB-; Stable	1)CARE BB-; Stable (25-Jul-22)	-	-	-
2	Fund-based - LT-Cash Credit	LT	40.00	CARE BB-; Stable	1)CARE BB-; Stable (25-Jul-22)	-	-	-
3	Non-fund-based - LT/ST-Bank Guarantee	LT/ST*	3.60	CARE BB-; Stable / CARE A4	1)CARE BB-; Stable / CARE A4 (25-Jul-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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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