Merino Industries Limited

March 26, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	412.70 (Reduced from 431.17)	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	141.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	205.00	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Merino Industries Limited (MIL) continue to draw strength from the long and established track record of the company in the laminates industry with strong brand positioning and pan-India presence with an extensive distribution network. MIL is one of the largest players in the domestic organized laminates business and also has significant presence in the export market.

The ratings take note of the improvement in capacity utilisation of laminates along with growth in total operating income (TOI) during FY23 (refers to the period April 01 to March 31) and 9MFY24. The operating margin however, remained moderate in line with the industry. The ratings further take note of completion of company's large size greenfield particle board project albeit with delay of three quarters and cost over run of around Rs.242 crore funded out of internal accruals and available liquidity. The capital structure though moderated, is expected to remain comfortable despite debt availed for the project. Debt coverage ratio however, is expected to moderate further in FY24 and improve thereafter with commissioning and stabilisation of the greenfield project.

The ratings continue to remain constrained by the susceptibility of its profitability to volatility in raw material prices, exposure to foreign exchange fluctuations, working capital intensive nature of operations and dependence on the prospects of the real estate sector. The ratings are further constrained by stabilization risk associated with recently concluded large-sized greenfield project for particle boards which is currently under trail phase, on the back of other capacity additions coming up in the industry which may increase the competitive intensity when these capacities come onstream.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Ability to significantly increase scale of operations with greater product diversification along with improvement in PBILDT margin beyond 18% and return on capital employed (ROCE) beyond 20% on a sustained basis.
- Total debt/PBILDT remaining below unity while maintaining its comfortable overall gearing on sustained basis.
- Significant sustained improvement in its working capital cycle.

Negative factors

- Inability to improve Total Debt/PBILDT below 2.50 times FY25 onwards
- Elongation in the operating cycle to above 150 days on a sustained basis.
- Decline in free cash and liquid investments below Rs.100 crore on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects that MIL is expected to sustain its healthy business risk profile given its established market position in the laminates industry with a strong brand name, established distribution network and timely stabilization of new plant.

Detailed description of the key rating drivers

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

Key strengths

Established presence in the laminates industry with moderately diversified revenue profile

MIL was originally established in 1965 as a trading unit and subsequently commissioned its operations of manufacturing plywood and laminates in early 1970s. Accordingly, the promoter, the Lohia family, has over five decades of experience in the laminates industry. The group is also continuously channelising its marketing strategies to widen its market share in the organised laminates segment. MIL is one of the largest players in the domestic laminates industry and its products are sold under the established brand name 'Merino Laminates'. The company also sells furniture and panel products under the brand name of 'My Space' and potato flakes under the brand name of 'Vegit'. The company has recently launched its brand 'FABWood' for its new product particle board.

While the revenue stream is primarily dominated by the laminates segment, the revenue profile reflects some product diversification. The decorative laminates segment contributed around 73% of its revenue in FY23, and the balance was contributed by its panel products and furniture division (18%), potato flakes division (4%), trading and others (4%). To further diversify its product offerings, the company has set up a greenfield particle board project which is currently under trial run and is expected to be commissioned in April 2024.

Extensive distribution network with growing export presence

MIL, by virtue of its established presence through the brand 'Merino' has been able to establish a strong pan-India marketing network with more than 850 distributors and dealers and over 18,000 retail outlets across the country. Furthermore, it has 11 warehouses pan-India. This apart, the company exports to more than 81 countries with agents based out of West Asia, Bangladesh and South-east Asia. The major export destinations are USA, Singapore, Israel, Mexico and Thailand. Exports contributed about 30% of its TOI in FY23 (31% in FY22). Furthermore, the group's extensive distribution network is supported by various marketing and branding exercises across its product divisions.

MIL spent 9.50%-10.00% of its TOI towards selling expenses in FY23 and FY22 as compared with 8% in FY21. Selling expenses increased mainly on account of increase in packaging costs as well as ocean freight. The company is expected to continue to invest in growing its brand through various marketing strategies.

Comfortable capital structure and healthy cash accruals

The capital structure of the company continues to remain comfortable with healthy cash accruals. Though the overall gearing ratio moderated from 0.33x as on March 31, 2022 to 0.53x as on March 31, 2023, on account of availment of term debt for the project and higher working capital utilisation, it continued to remain comfortable. The overall gearing has continued to remain at similar level in 9MFY24 also.

The increase in debt led to moderation in the debt coverage indicators of the company with total debt to gross cash accruals (TDGCA) moderating from 1.94x as on March 31, 2022 to 3.66x as on March 31, 2023, however, the same was largely envisaged. Interest coverage ratio remained healthy at 12.86 times in FY23. On the back of no major capital expenditure (capex) plans going forward, the capital structure and debt coverage indicators are expected to remain comfortable.

Stable demand outlook; albeit large capex plans in the industry may increase competitive intensity

The Indian furniture industry is expected to witness continuous growth on the back of rising per capital income levels, rapid urbanisation and rise in standard of living of consumer class. Going forward, the demand for furniture products is likely to be primarily driven by growth in demand from the hospitality sector, healthcare sector, commercial office space sector and retail space sector. The demand for decorative laminates has been witnessing growth and finding increasing usage in ready-to-assemble furniture, cabinets, flooring and other solutions across both residential and commercial sectors. However, the demand for interior infrastructure products is directly linked to the prospects of the real estate industry. Hence, any downturn in the real estate business could have an adverse effect on the revenue of the company. Furthermore, MIL remains exposed to significant competition from both the organised and the unorganised sector players for its various product segments, threat of import including upcoming capacities of particle board by its peers.

Liquidity: Strong

MIL has a strong liquidity position with unencumbered cash and cash equivalents of ₹171.26 crore as on March 31, 2023 which stood at around ₹105.28 crore as on December 31, 2023.

The company's strong liquidity position is witnessed from its ability to fund majority capex cost of around ₹569 crore out of total project cost of ₹894 crore from its internal accruals and available liquidity. Entire debt repayment obligations for FY24 have been repaid by the company. Further, company has been generating cash accruals of around ₹180-200 crore p.a. over past which shall be sufficient to cover its debt repayment obligations of around ₹108 crore p.a. basis apart from routine capex requirements.

The average fund-based working capital limit utilisation of the company stood at around 63% in the last 12 months ended February 2024. With an overall gearing of 0.53x as on March 31, 2023, the company has sufficient gearing headroom to raise additional debt in case of exigencies.

Key weaknesses

Continued moderation in profitability margins in FY23 and 9MFY24, though significant growth in revenue

TOI of MIL witnessed a significant growth of 24% y-o-y in FY23 to 2,188.65 crore; post witnessing growth of 35% y-o-y in FY22 on the back of improved capacity utilisation. In 9MFY24, TOI of MIL stood healthy at ₹1,723.93 crore backed by increase in volumes on account of healthy demand. The increase in revenue is marked by both increase in sales volumes as well as realization of both laminates and panel products & furniture. However, the PBILDT margin moderated from 12.49% in FY22 to 11.81% in FY23 and further to 11.32% in 9MFY24 on account of increase in input prices (which could not be passed on completely) along with increase in power cost and legal & professional expenses on the back of appointment of consultancy firm to improve operational efficiencies. Also, the company has tied up with solar power plants which is expected to reduce its power cost by around 30% going forward. Accordingly profitability margins of MIL are expected to improve going forward with expected stabilization of raw material prices, measures undertaken to reduce power cost and improve operational efficiencies and commencement of operations of new particle board plant which is expected to have higher operating margins.

Inherent stabilization risk associated with large-size particle board project which is expected to commence operations shortly post delay of three quarters and cost over run

MIL has set up a greenfield engineered wood/particle board plant, pre-lam particle board unit along with a furniture manufacturing unit in Halol, Gujarat, at a cost of around ₹894 crore as against earlier estimates of ₹652 crore. The plant was expected to commence operations from Q1FY24; however the plant is under trail phase currently and is now expected to commence operations from April, 2024.

The time overrun and cost overrun was due to delay in supply of machineries from Europe on the back of Russia Ukraine war and change in requirement of certain machineries and ancillary items in order to achieve high quality particle board.

The project debt: equity ratio was earlier envisaged at 1:1. However, cost overrun has been funded entirely out of surplus funds and accruals available with the company with availment of debt of ₹325 crore as envisaged.

The company remains exposed to inherent stabilization risk associated with recently concluded large-size capex. The size of the capex is large at around 66% of its net worth as on March 31, 2023 and it is expected to break even at PBILDT level by FY25-end. The company has an established marketing and distribution network which it plans to leverage for marketing the new products. Although the demand for particle boards has been witnessing growth and the company has ventured into this product with an aim towards product diversification in its revenue mix as well as to drive growth in its scale, the significant capacity additions announced in the particle board and MDF sector by other industry players may increase the competitive intensity when all these capacities come onstream and thus could impact the envisaged returns on this capex.

Timely stabilization of the project and generation of envisaged returns from the project would be a key monitorable.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature on account of its high inventory holding period due to large number of product variants and requirement of raw material stocking since significant proportion of raw materials are imported with a long lead time. The company provides credit of about 30-45 days and avail credit from its suppliers of about 45-60 days. The operating cycle of the company improved from 127 days in FY21 to 84 days in FY22 mainly on account of reduction in inventory holding period from 144 days in FY21 to 101 days in FY22 and then increased to 92 days in FY23 mainly owing to increase in inventory holding period from 101 to 106 days in FY23 on account of growth in its scale of operations.

Raw material price fluctuation risk and exposure to foreign exchange fluctuation

Raw material cost formed about 60%-65% of the total cost of sales for MIL during FY20-FY23. The major raw materials for the company are paper and various chemicals. The design paper which imparts the required design to the laminates is primarily imported from Europe. Furthermore, around 30%-40% of the Kraft paper which lends the thickness to the laminates is imported from USA, while the balance is domestically sourced. The other major raw materials, which consists of phenol, melamine, and methanol are primarily (around 70%-80%) imported from China and USA. Methanol and Phenol being the primary chemical requirements, their availability and price has a significant impact on the operating margins of the company. Prices of both the products in international market are highly volatile (as they are a crude oil derivative). Furthermore, any increase in the raw material prices is normally passed on to the customers largely with certain time lag and depending upon competitive landscape.

MIL is a net exporter. In FY23, MIL imported raw materials worth ₹503 crore against ₹418 crore in FY22. However, as the company exports around 30% of its gross sales (₹618 crore in FY23 as against ₹534 crore in FY22), it is partially insulated against foreign exchange fluctuation by way of natural hedging. The company made forex loss of ₹1.30 crore during FY23 as against gain of ₹1.07 crore in FY22.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macro-economicIndicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer durables	Consumer durables	Plywood boards/ Laminates

MIL is the flagship company of the Merino group. With track record of over five decades, MIL is a leading manufacturer and exporter in the laminates industry and occupies a substantial market share of the organised laminates segment. It has five manufacturing facilities with pan-India presence and exports to more than 81 countries. Furthermore, it is also engaged in the manufacturing of potato flakes, pre-laminated boards and furniture units along with providing allied interior solutions and small-time trading of laminates, chemicals, other panel products and potatoes.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,759.53	2,188.65	1,723.93
PBILDT	219.72	258.41	195.10
PAT	131.37	117.65	120.14
Overall gearing (times)	0.33	0.53	0.54
Interest coverage (times)	15.31	12.86	12.64

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'.
Financials are reclassified as per CARE Ratings standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Please refer to Annexure-2

Covenants of rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of facilities

Name of the Facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	67.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	January, 2027	328.70	CARE AA-; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	17.00	CARE AA-; Stable
Fund-based - LT/ ST-EPC/PSC		-	-	-	66.00	CARE AA-; Stable / CARE A1+
Fund-based - ST-Working Capital Demand loan		-	-	-	75.00	CARE A1+
LT/ST Fund-based/ Non-fund-based-PSF/CC/LC/BG		-	-	-	75.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	130.00	CARE A1+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Ratings	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term Loan	LT	328.70	CARE AA-; Stable	-	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)	1)CARE AA-; Stable (08-Jan-21)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST	66.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (27-Dec-22)	1)CARE AA-; Stable / CARE A1+ (06-Jan-22)	1)CARE AA-; Stable / CARE A1+ (08-Jan-21)
3	Fund-based - LT-Cash Credit	LT	67.00	CARE AA-; Stable	-	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)	1)CARE AA-; Stable (08-Jan-21)
4	Non-fund-based - ST-Letter of credit	ST	130.00	CARE A1+	-	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)
5	Fund-based - LT-Working Capital Demand loan	LT	17.00	CARE AA-; Stable	-	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)	1)CARE AA-; Stable (08-Jan-21)
6	Fund-based - ST-Working Capital Demand loan	ST	75.00	CARE A1+	-	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)
7	Fund-based/Non-fund-based-Short Term	ST	-	-	-	1)Withdrawn (27-Dec-22)	1)CARE A1+ (06-Jan-22)	1)CARE A1+ (08-Jan-21)
8	LT/ST Fund-based/Non-	LT/ST	75.00	CARE AA-; Stable /	-	1)CARE AA-; Stable / CARE A1+	-	-

	fund-based-PSF/CC/LC/BG			CARE A1+		(27-Dec-22)		

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated 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	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Fund-based - LT/ ST-EPC/PSC	Simple
5	Fund-based - ST-Working Capital Demand loan	Simple
6	LT/ST Fund-based/Non-fund-based-PSF/CC/LC/BG	Simple
7	Non-fund-based - ST-Letter of credit	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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