Twinkle Papers Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	27.90 (Enhanced from 25.75)	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB-; Stable;
Short Term Bank Facilities	8.25 (Enhanced from 6.25)	CARE A4	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Twinkle Papers Limited (TPL) are constrained by modest scale of operations and weak financial risk profile characterized by high overall gearing owing to low net-worth base and higher reliance of working capital limits, stretched liquidity position and working capital-intensive nature of operations. The ratings are further constrained by vulnerability of margins to raw material prices volatility and foreign exchange fluctuations with highly competitive nature of industry and customer concentration risk. The ratings, however, derive comfort from improvement in profitability margin in FY24 (refers to April 1 to March 31), extensive experience of the promoters and the company's long track record of operations, association with reputed client base.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of company to increase its total operating income to Rs.80 crores with PBILDT margin of 10% on sustained basis.
- Improvement in the capital structure with overall gearing below 1.5x on sustained basis
- Ability of the company to improve its collection and inventory cycle below 150 days resulting in better liquidity.

Negative factors

- Deterioration in debt coverage metrics with overall gearing higher than current level and interest coverage of less than 1.5x
- Further deterioration in operating cycle to above 160 days, adversely impacting the liquidity of the company on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its growth over the medium term on back of increased business with existing clients.

Detailed description of the key rating drivers:

Key weaknesses

Modest scale of operations: The company's scale of operation continues to remain low and reported Rs.58.38 crore during FY24 (PY: Rs.54.81 crores) owing to decline in sale of corrugated box which was partially offset by increase in demand of plastic items in FY24 as compared to the last fiscal. Further, the company has reported an operating income of around Rs.12.00 crore for 2MFY25 (refers to April 1 to May 31) on the back of steady demand and growth in volumes.

Leveraged financial risk profile: The company's financial risk profile remains leveraged, as evident by deterioration in overall gearing to 3.83x as on March 31, 2024 (Prov.) as against 3.66x as on March 31, 2023. The low net-worth base of Rs.11.32 crore as on March 31, 2024 along with the higher utilization of working capital limits and fresh term loan availed by the company led to increase in leverage. Further, debt coverage indicators though improved slightly yet remained leveraged as marked by interest coverage ratio of 2.23x in FY24 (PY: 2.03x) and Total Debt to GCA is 9.61x as against 12.75x in FY23 on account of improving profitability margins.

Working capital intensive operations along with high customer concentration risk: The operations of the company are working capital intensive as characterized by operating cycle of 153 days in FY24 (PY: 127 days) due to elongated inventory days. The company maintains high levels of inventory, which stood at 154 days in FY24 (PY: 121 days) for smooth functioning of production, exposing the company's margins to susceptibility to fluctuation in raw material prices.

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

Further, top 5 customer accounted for around 39% of total sales in FY24 with share of top 2 customers accounting to ~27% exposing the company to customer concentration risk. The risk, however, is mitigated to some extend as the company is having long-term relationship with its customers.

Vulnerability of margins to raw material prices and foreign exchange fluctuations: Major raw material used by the company is plastic granules, chemicals and paper products constituting ~68% of total income in FY24 (PY: ~76%). The prices of these raw materials are fluctuating in nature as they depend on demand and supply scenario. This exposes the margins to any adverse movement in the raw material prices. Furthermore, the margins of the company are exposed to foreign exchange fluctuation, as the company imports the raw material (Chemicals) from middle east. In absence of any natural hedge, margins of the company are exposed to any adverse fluctuation in the foreign exchange prices.

Presence in highly competitive industry: The packaging industry is highly fragmented in nature with stiff competition from large number of organized as well as unorganized players. This limits the pricing power of the manufacturers and puts further pressure on profitability. However, this risk is mitigated to some extent as the company has a reputed clientele and long track record of operations.

Key strengths

Improving profitability margins: The company has witnessed the improvement in PBILDT margin from 10.72% in FY23 to 15.44% in FY24 primarily on account of saving in raw material cost and improved performance in plastic items segment both in terms of improved sales realisation as well as higher quantities sold. Consequently, PAT margin increased from 1.55% in FY23 to 2.18% in FY24. Further, during FY24 the company had started the production of pallets, which is relatively higher profit yielding segment.

Experienced promoters and long-standing association with customers and suppliers: Twinkle Papers Limited is a family-owned business. Incorporated in 1995, the company is managed by Mr Amit Jain who has an overall experience of over two decades and looks after production, and quality control function of the company. Moreover, day-to-day operations of the company are supported by a team of professionals having experience ranging between 10-40 years. Being in operations for more than 2 decades, the company has long standing relationships with its customers and suppliers.

Liquidity: Stretched

The liquidity profile of the company remains stretched as characterized by elongated working capital cycle of 154 days in FY24 (PY: 127 days) since company has to maintain higher inventory in order to timely execute orders, free cash & bank balance of Rs.0.65 crore and below unity quick ratio of 0.48x as on March 31, 2023 (PY: 0.58x). Further the average utilization of working capital limits for trailing twelve months ending April 2024 stood at around 95%. The company has not envisaged any major capex in medium term.

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

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

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

Incorporated in 1995, Twinkle Papers Limited (TPL) is operating in packaging industry and engaged in manufacturing of Plastic (HDPE) Drums/ Containers, Corrugated Boxes, and Paper Cones at its manufacturing facility located at Malerkotla, Punjab. For plastic segment, the company is having production capacities for manufacturing HDPE Drums/containers with capacity ranging from 100 ml to 1000 ml (HDPE Drums/containers). Annual capacity stood at 6,500 MT as on March 31, 2024. For Corrugated boxes segment, the company is having a corrugation machine with capacity of 8,000 MT per annum as on March 31, 2024. The company is a family-owned business with Mr. Amit Jain as its managing director.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	47.05	54.81	58.38
PBILDT	4.32	5.88	9.02
PAT	0.71	0.85	1.64
Overall gearing (times)	3.05	3.66	3.83
Interest coverage (times)	2.06	2.03	2.23

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: 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		-	-	-	17.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	30/09/2029	10.90	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	8.25	CARE A4

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	10.90	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (12-Feb-24)	1)CARE BB; Stable (02-Feb-23)	-
2	Fund-based - LT-Cash Credit	LT	17.00	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (12-Feb-24)	1)CARE BB; Stable (02-Feb-23)	-
3	Non-fund-based - ST-Letter of credit	ST	8.25	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (12-Feb-24)	1)CARE A4 (02-Feb-23)	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term

Annexure-3: Detailed explanation of 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	Fund-based - LT-Term Loan	Simple
3	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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: 91-120-4452017 E-mail: sajan.goyal@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sachin Mathur Associate Director **CARE Ratings Limited** Phone: 91-120-4452054 E-mail: sachin.mathur@careedge.in Arpit Garg Lead Analyst **CARE Ratings Limited** E-mail: arpit.garg@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in