Tulsi Paper Mills Private Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1.20 (Reduced from 2.71)	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	27.00	CARE BBB+; Stable / CARE A3+	Reaffirmed
Short-term bank facilities	51.75	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Tulsi Paper Mills Private Limited (TPMPL) continue to derive strength from vast experience of promoters in paper industry and marketing support from the group and established though concentrated customer base. Ratings continue to favourably factor in TPMPL's comfortable capital structure backed by healthy net worth base, comfortable debt coverage indicators, and efficient working capital utilisation in FY24 (Provisional, refers to period April 01 to March 31).

However, ratings remain constrained considering marginal decline in scale of operations though remained moderate in FY24 due to price correction of waste-paper and consequent impact on duplex board prices. Ratings continue to remain constrained owing to moderate profitability margins, TPMPL's presence in a highly fragmented and cyclical paper industry, profit margins susceptible to wastepaper price volatility, foreign exchange rate, and stringent pollution control norms. Ratings also consider pendency of insurance claim finalisation due to loss occurred in a fire incident in FY23.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustaining scale of operations marked by total operating income (TOI) of more than ₹350 crore with improvement in profitability marked by PBILDT margin above 8% on a sustained basis.
- Sustaining comfortable capital structure marked by overall gearing below 0.25x.
- Improvement in the working capital cycle below 80 days.

Negative factors

- Decline in TOI below ₹250 crore or PBILDT margins below 5% on a sustained basis.
- Any major debt-funded capex resulting in deterioration in overall gearing above 0.75x.
- Elongation in its working capital cycle to above 120 days.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes TPMPL will maintain its scale of operations and is likely to improve operating margins post FY24 along with sustaining current capital structure and debt protection metrics.

Detailed description of key rating drivers:

Key strengths

Vast experience of promoters in paper industry with marketing support from group

TPMPL is promoted by three promoter groups, Daga, Gangani, and Patel families. The Daga family has established operations in the paper trading business in Surat, Gujarat, through their other companies - Daga Impex Private Limited (DIPL) and Daga Polymers Private Limited (DPPL). Jatanlal M. Daga, Managing Director of TPMPL, holds overall around two decades of experience, and Ashokkumar Daga, Director, has more than a decade of experience in the paper trading business through group companies, such as Rajasthan Trading Company (RTC), DPPL, and DIPL. Ashokkumar Gangani, Jayeshkumar Gangani, and Mahendra Patel have overall experience of more than two decades in paper manufacturing through TPMPL and in the construction business through other associate concerns.

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

Established marketing arrangements and customer base though concentrated customer base
TPMPL is in paper business since last around two decades and has an established dealer network of about 25 dealers; largely spread across the states of Gujarat and Maharashtra. However, TPMPL's customer profile remained concentrated with top five customers constituted around 84% in FY24 (64% in FY23) with more than 24% of sales to DIPL and DPPL as against around 21% in FY23.

Comfortable capital structure and debt coverage indicators
TPMPL's capital structure remained comfortable over years with below unity overall gearing ratio. Overall gearing remained at 0.05x as on March 31, 2024 against 0.17x as on March 31, 2023 on back of strong tangible net worth and negligible term debt and moderate utilisation of working capital limits.
The debt coverage indicators also remained comfortable marked by highly comfortable interest coverage ratio of 12.90x in FY24 (6.93x in FY23). The total debt to gross cash accruals (GCA) continued to remain comfortable at 0.80x as on March 31, 2024 as against 2.64x as on March 31, 2023.

Key weaknesses

Moderate scale of operations and profitability
The scale of operations as marked by TOI registered degrowth of ~22% in FY24. The TOI remained at ₹286.41 crore in FY24 as against ₹368.64 crore in FY23, mainly due to decline in sales realisations considering decline in input costs and stiff competition due to entry of new players. However, sales volume reported marginal 2% increase and remained stable. This also resulted in increase in capacity utilisation from 93% in FY23 to 95% in FY24. In 2MFY25, the company had reported TOI of ₹51 crore.
TPMPL's profitability as marked by PBILDT margin, started recouping since FY24 which worsen in FY23 due to fluctuation in imported wastepaper prices (a key material for TPMPL) and stiff competition in the duplex paper board market. TPMPL reported PBILDT margin of 4.08% in FY24 as against 2.99% in FY23.
CARE Ratings expects TOI of TPMPL to remain moderate with profitability margins to improve at around 5-6% in FY25. The margins are expected to improve going forward, considering the expected increase in the demand and stabilisation of the key input cost (wastepaper and coal).

Update on fire incident occurred in FY23
A fire broke out in TPMPL's raw material storage area, in November 2022, following which the manufacturing facility was shut down for 12 days. TPMPL submitted total claim of ₹35.81 crore (including loss of inventories and civil expenses) the entire claim process is expected to finalise in H1FY25 as articulated by management.

Presence in highly fragmented and cyclical industry
The Indian duplex board industry is highly fragmented with stiff competition from several organised players and unorganised players. Given that the entry barriers to industry are low, players in this industry do not have pricing power and are exposed to competition-induced profitability pressures. The prospects of paper manufacturer using recycling processes depend on the wastepaper market trend, which has exhibited high volatility in last three years. Post COVID-19, the prices of wastepaper started increasing and remained elevated until Q3FY23. However, gradual addition of capacity and demand moderation resulted in decreasing prices since Q4FY23.

Profitability margins susceptible to wastepaper price volatility and fluctuating foreign exchange rate
Raw material forms around 65%-70% of the total cost of goods sold for TPMPL. Waste-paper is a key raw material for manufacturing duplex board paper; prices of which are affected by two prime factors: prices in international market and the monsoon season. The prices of wastepaper being a key raw material, remained volatile in the international market due to mismatch between demand and supply of wastepaper post lockdown imposed due to COVID-19 in different countries. The prices of other raw materials (chemicals and coal), being globally traded commodity, have also inherently been volatile. The imported raw material forms around 75%-80% of the total raw material purchase and the entity sells its final product in the domestic market only, which leads to exposure to volatile foreign exchange rates. TPMPL has reported foreign exchange fluctuation gain of ₹0.26 crore in FY24 as against loss of ₹0.99 crore in FY23.

Stringent pollution control norms
The paper industry is one of the most-polluting industries, as identified and categorised by Central Pollution Control Board (CPCB), as it is one of the largest users of fresh water. With water used in nearly every step of the manufacturing process, the paper industry produces large volume of wastewater and residual sludge waste, presenting issues in wastewater treatment, discharge and sludge disposal. TPMPL has adequate effluent treatment plant (ETP) in place with capacity of 900 kilo litres per day (KLPD) of treated water.

Liquidity: Adequate
Liquidity remained adequate characterised by comfortable liquidity ratios, comfortable cash accruals against nominal repayment obligations and moderate utilisation of its working capital bank facilities. Its cash accruals remained comfortable at ₹9.52 crore in FY24 against repayment obligations of ₹1.49 crore in FY25. Current ratio remained healthy at 6.19x as on March 31, 2024 as against 3.02x as on March 31, 2023 mainly due to lower utilisation of working capital bank limits as on balance sheet date and reduction in the amount of trade payables from ₹25.07 crore (including acceptances) as on March 31, 2023 to ₹11.13 crore as on March 31, 2024, largely due to stabilisation of raw material prices. In FY24, the company has reported positive cash flow from operations of ₹16.34 crore as against ₹4.16 crore in FY23 due to averaging effect of past year. Average utilisation of fund-based and non-fund-based limits remained moderate at around 35% and 30% in 12-months ended May 31, 2024, respectively. The operating cycle remained at 104 days in FY24 (FY23: 102 days).

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
Commodities	Forest materials	Paper, forest & jute products	Paper & paper products

Palsana, Surat-based (Gujarat) TPMPL was incorporated in 2007 by Daga & Gangani family. TPMPL is engaged in manufacturing duplex paper board with installed capacity of 82,500 Metric Tonnes per Annum (MTPA) as on March 31, 2024. The company manufactures various types of duplex boards, white back, grey back, coated, uncoated and are available in different stiffness ranging from 230-550 GSM, which is broadly used for packaging in various industries such as textiles, pharmaceuticals, cosmetics, food & beverages, consumer and industrial products among others.
TPMPL's manufacturing plant is a wastepaper-based unit where ~80% of wastepaper is imported, and rest is procured from domestic market. TPMPL also has a coal-based captive co-generation power plant of 4.8 MW, which meets its large part of power requirement.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	368.64	286.41
PBILDT	11.01	11.69
PAT	4.98	5.79
Overall gearing (times)	0.17	0.05
Interest coverage (times)	6.93	12.90

A: Audited, P: Provisional; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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-Term loan		-	-	June 2025	1.20	CARE BBB+; Stable
Fund-based - LT/ ST-Cash credit		-	-	-	27.00	CARE BBB+; Stable / CARE A3+
Fund-based - ST-Forward contract		-	-	-	0.75	CARE A3+
Non-fund-based - ST-Bank guarantee		-	-	-	1.00	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	50.00	CARE A3+

Annexure-2: Rating history for 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/ ST-Cash credit	LT/ST	27.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (06-Mar-24) 2)CARE A-; Negative / CARE A2 (20-Jun-23)	1)CARE A-; Stable / CARE A2 (03-Aug-22)	-
2	Fund-based - LT-Term loan	LT	1.20	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Mar-24) 2)CARE A-; Negative (20-Jun-23)	1)CARE A-; Stable (03-Aug-22)	-
3	Non-fund-based - ST-Letter of credit	ST	50.00	CARE A3+	-	1)CARE A3+ (06-Mar-24)	1)CARE A2	-

						2)CARE A2 (20-Jun-23)	(03-Aug-22)	
4	Fund-based - ST-Forward contract	ST	0.75	CARE A3+	-	1)CARE A3+ (06-Mar-24) 2)CARE A2 (20-Jun-23)	1)CARE A2 (03-Aug-22)	-
5	Non-fund-based - ST-Bank guarantee	ST	1.00	CARE A3+	-	1)CARE A3+ (06-Mar-24) 2)CARE A2 (20-Jun-23)	1)CARE A2 (03-Aug-22)	-
6	Non-fund-based - ST-Proposed non-fund-based limits	ST	-	-	-	1)Withdrawn (20-Jun-23)	1)CARE A2 (03-Aug-22)	-

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

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	Fund-based - ST-Forward contract	Simple
4	Non-fund-based - ST-Bank guarantee	Simple
5	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 complexity levels of 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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