Lemit Papers LLP

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	177.60 (Enhanced from 105.00)	CARE BB+; Stable	Upgraded from CARE BB-; Stable
Long Term / Short Term Bank Facilities	4.25 (Enhanced from 3.60)	CARE BB+; Stable / CARE A4+	Upgraded from CARE BB-; Stable / CARE A4
Short Term Bank Facilities	10.00	CARE A4+	Upgraded from CARE A4

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the ratings assigned to the bank facilities of Lemit Papers LLP (LPL) is on account of strengthening of its promoter profile with onboarding of a resourceful promoter group having a longstanding experience across varied industries, improvement in firm's capital structure and liquidity profile with infusion of sizeable funds by the new partners, and onboarding of a reputed client.

The ratings however continue to remain constrained on account of the 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 also take into consideration firm's modest operating performance during FY24 marked by losses incurred owing to subdued sales realizations, which is expected to continue in FY25 as well; alongwith its constitution as a partnership firm.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in the scale of operations with improvement in profit before interest, lease rentals, depreciation and tax (PBILDT) margin on a sustained basis, backed by onboarding of a reputed customer.
- Improvement in capital structure and debt coverage indicators on sustained basis.

Negative factors

- Decline in Total Operating Income (TOI) or any further moderation in profitability on a sustained basis.
- Any withdrawal of funding support by the promoters resulting in deterioration in overall gearing above 2.0x and moderation in debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of the firm's ability to sustain the growth in its scale of operations in the medium term supported by the longstanding business experience of its new partners alongwith its association with a reputed client, along with improvement in its financial risk profile with continued infusion of need-based funds from the new partners.

Detailed description of key rating drivers:

Key weaknesses

Modest operating performance

LPL started operations in October 2022. The firm registered TOI of Rs. 271.54 during FY24 marking the first full year of operations against Rs. 80.85 Crore in FY23 (refers to the period from October 01, 2022, to March 31, 2023) and projected TOI of Rs. 302.5 Crore for FY24. The lower-than-expected sales were primarily due to the reduction in net sales realizations driven by subdued demand mainly in export economies and a highly competitive industry landscape, which led to an oversupply situation.

The firm reported revenue of ~Rs. 108 Crore till November 07, 2024, and is expected to achieve turnover of ~Rs.260 in FY25, largely in line with FY24.

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

LPL registered losses at operating level in FY24 as the oversupply situation exerted pressure on Net Sales Realizations (NSR), while input prices (including freight, power and fuel cost) largely remained firm. FY24 NSR declined to Rs.36,474 per MT as against Rs.40,233 per MT during FY23.
While the firm is expected to register profits at operating level driven by some improvement in realizations, overall, on a net basis, the losses are expected to continue even in FY25 driven by an overall moderate demand scenario.

Susceptibility of profitability to volatile raw material prices and forex rates
The key raw material used in the manufacturing of duplex paper boards is wastepaper, which forms the major portion of the raw material in the paper packaging industry. The margins in the packaging industry are highly susceptible to the changes in the prices of the raw materials. The volatility in wastepaper prices thus poses a threat to the operating margins of the firm. The raw material cost constitutes ~75% of the total cost of sales, thus exposing LPL to the volatility in the prices of raw material which has a bearing on its profitability. Further, LPL sources its raw material from domestic and foreign suppliers (with wastepaper overall largely being imported in India); thus, exposing firm to foreign exchange risk. Although the firm has reported gains due to foreign currency fluctuation for the period FY23-FY24 (refers to the period from October 01, 2022 to March 31, 2024), LPL does not have any active foreign currency hedging strategy in place which may any adverse impact on the firm's profitability in case of any adverse movement in forex rates.

Highly competitive & fragmented industry
The Indian paper and paper products industry is highly fragmented with stiff competition from few organised players having presence in multiple segments of the industry, and large number of medium-to-small sized players. This limits pricing power to a certain extent.
The paper industry is also cyclical and sensitive to economic cycles, which impacts its demand-supply dynamics. The subdued demand scenario, and multi-fold increase in import of paper products from ASEAN countries (due to duty-free access under Free Trade Agreement) and heightened competition due to capacity addition in the industry led to oversupply situation, which is envisaged to persist in the near term.
However, demand for packaging paper is expected to grow steadily in the medium term considering growing demand for better-quality packaging for fast-moving consumer goods (FMCG) products marketed through organised retail, growing e-commerce, rising healthcare spending and changing lifestyle and food preferences with increasing adoption of ready-to-eat food.

Environmental 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 consumes wastepaper as a key raw material and in order to ensure required treatment of wastewater 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.

Constitution as a partnership entity
Being a partnership firm, LPL is exposed to the inherent risk of the partners' capital being withdrawn at time of personal contingency, and the firm being dissolved upon the death/retirement/insolvency of the partners. However, with a strong profile of the new promoter group, this risk is mitigated to a large extent.

Key strengths

Experienced and resourceful promoter group
As of August 2024, LPL's partnership structure changed, with onboarding of a new promoter group. The firm is now managed by Mr. Darshan Patel, Mr. Dipam Patel, and Mr. Dignesh Patel. These promoters have a presence in the cosmetics industry through Vini Cosmetics Private Limited (VCPL) that offers personal care and over-the-counter products. VCPL owns a few reputed brands such as Fogg and White Tone (Talcum powder), with a strong operational and financial profile.
The promoters also have a longstanding presence in the paper packaging industry, and they recently entered in manufacturing of packaging products through an entity named Paras Webcoat Private Limited (PWPL).
PWPL has been associated with ITC limited (ITC) since 2006 for PE lamination of the latter's paper products.

Improvement in financial risk profile with sizeable fund infusion
The new partners have infused funds of ~Rs.140 crore in total in LPL till November 07, 2024, out of which Rs.50 crore were repaid to the old partners partly in lieu of their capital, while balance Rs.90 crore was utilized to support the operations of the firm and fund the capex, along with extension of some loans and advances to the old partners.
Furthermore, promoters will infuse additional USL of Rs.24 Crore by March 31, 2025. Out of, USL of Rs.100 Crore shall remain subordinated to bank borrowings and thus considered as quasi equity.

Infusion of the aforesaid funds has resulted in an improvement in the overall financial risk and liquidity profile of the entity, with an expected improvement in overall gearing to below 1.50x at FY25 end as against an overall gearing of 3.05x as on March 31, 2024. This is despite an expected elevation in the debt over the next two years, in the form of term loans to be availed for process improvement and solar power plant installation capex, alongwith additional working capital limits to be tied up to support the overall growth in scale of operations.

Onboarding of a reputed Client

As articulated by the new management, LPL has entered in a Memorandum of Understanding (MOU) with ITC Limited (ITC) for the sale of its entire production to ITC and a commercial agreement is in the process of being signed. The firm has already started sales to ITC from Q2FY25 and till November 2024, the firm booked sales of ~Rs. 40 Crore from ITC.
For the said transition towards sales to ITC, the firm is undertaking a capex of amounting Rs.25 Crore to enhance the quality of the product which is expected to be commercialized from April 2025. Proposed capex will be funded through a mix of debt of Rs.15 Crore and USL of promoters Rs. 10 Crore.

Liquidity: Adequate

Liquidity of the firm is improved and remains adequate, marked by fund infusion by the promoters, moderate utilization of working capital limits and adequate cash flow from operations.
New promoters have infused USL of Rs.90 crore in the business and will infuse additional USL of Rs. 24 Crore by March 31, 2025, to support operations of the firm. Further, average working capital utilization of bank facilities stood moderate at around 74% for the past 12 months ended September 2024.
During FY24, LPL's reported positive cash flow from the operations of Rs.10.26 Crore in FY24 against negative Rs.26.28 Crore in FY23 on account of realization of funds from inventory and other current assets. Also, additional unsecured loan of ~Rs. 7.36 Crore was availed during FY24 from the related parties. These, together, supported the debt repayments including interest.
The operating cycle of the firm stood moderate at 33 days in FY24, however it is expected to increase marginally in the projected period with stabilization of operations and growth in scale. The operating cycle was supported with credit of around 45 days received from suppliers.

Assumptions/Covenants: Not applicable

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 firm and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

LPL is a partnership firm, established in Morbi, Gujarat, for manufacturing duplex paper board (white and grey backed), which finds application across various industries for its packaging requirement. The plant is located at Khakrechi, near Morbi, with an installed capacity of 150,000 Metric Tonnes Per annum (MTPA) and got operationalized in October 2022.
As of August 2024, LPL's partnership structure changed, with onboarding of new partners. The firm is now managed by Mr. Darshan Patel, Mr. Dipam Patel, and Mr. Dignesh Patel.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	80.85	271.54	108.09
PBILDT	0.27	-0.06	NA
PAT	-5.58	-15.52	NA
Overall gearing (times)	2.03	3.05	NA
Interest coverage (times)	0.06	-0.01	NA

A: Audited UA: Unaudited NA: Not available; 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	70.00	CARE BB+; Stable
Fund-based - ST-EPC/PSC		-	-	-	10.00	CARE A4+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	4.25	CARE BB+; Stable / CARE A4+
Term Loan-Long Term		-	-	March 2030	107.60	CARE BB+; Stable

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	Term Loan-Long Term	LT	107.60	CARE BB+; Stable	-	1)CARE BB-; Stable (07-Nov-23)	1)CARE BB-; Stable (17-Jan-23) 2)CARE BB-; Stable (25-Jul-22)	-
2	Fund-based - LT-Cash Credit	LT	70.00	CARE BB+; Stable	-	1)CARE BB-; Stable (07-Nov-23)	1)CARE BB-; Stable (17-Jan-23) 2)CARE BB-; Stable (25-Jul-22)	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	4.25	CARE BB+; Stable / CARE A4+	-	1)CARE BB-; Stable / CARE A4 (07-Nov-23)	1)CARE BB-; Stable / CARE A4 (17-Jan-23) 2)CARE BB-; Stable / CARE A4 (25-Jul-22)	-
4	Fund-based - ST-EPC/PSC	ST	10.00	CARE A4+	-	1)CARE A4 (07-Nov-23)	-	-

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 instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Term Loan-Long Term	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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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.

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