Merino Industries Limited

March 24, 2025

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	-	-	Downgraded to CARE A+; Stable / CARE A1+ from CARE AA-; Stable / CARE A1+ and Withdrawn
Long-term bank facilities	-	-	Downgraded to CARE A+; Stable from CARE AA-; Stable and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has downgraded ratings assigned to bank facilities of Merino Industries Limited (MIL) from CARE AA-; Stable /CARE A1+ to CARE A+; Stable/CARE A1+ and withdrawn ratings with immediate effect. The rating has been withdrawn at the request of MIL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

Revision in the long-term rating considers subdued financial performance of MIL in H1FY25 with company incurring net loss during the period due to increased fixed cost and higher capital charge emanating from delay in stabilisation of newly implemented particle board plant as well as internal reorganisation of the process and people. Subdued financial performance led to significant moderation in debt coverage indicators during H1FY25. Consequently, the company's performance for FY25 is expected to be significantly weaker than the earlier envisaged performance.

However, ratings continue to draw strength from the company's long and established track record 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 organised laminates business and also has significant presence in the export market.

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

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects that MIL is expected to benefit from its established market position in the laminates industry with a strong brand name, established distribution network and stabilisation of new plant.

Detailed description of key rating drivers:

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 group, 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.

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

The decorative laminates segment contributed ~71% of its revenue in FY24 (73% in FY23) and the balance was contributed by its panel products and furniture division at 19% in FY24 (18% in FY23), potato flakes division (5% in FY24 and 4% in FY23) and trading and others (5% in FY24 and 4% in FY23).

Extensive distribution network with growing export presence

By virtue of its established presence through the brand 'Merino', MIL has been able to establish a strong pan-India marketing network with over 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 Japan. Exports contributed ~30% of its total operating income (TOI) in FY24 (30% in FY23). The group's extensive distribution network is supported by various marketing and branding exercises across its product divisions. MIL spent ~8.98% of TOI towards selling expenses in FY24 and 9.74% in FY23. The company is expected to continue to invest in growing its brand through marketing strategies.

Comfortable capital structure

The company's capital structure continues to remain comfortable with overall gearing below 0.60x in the last five fiscals. Overall gearing slightly moderated from 0.53x as on March 31, 2023, to 0.59x as on March 31, 2024, and 0.58x as on September 30, 2024, considering term loan availed for the project, maintenance capex and higher working capital limit utilisation. Considering no major capex plans going forward, the capital structure is expected to remain comfortable.

Liquidity; Strong

The company's strong liquidity position is witnessed from its ability to fund majority capex cost of ~₹553 crore through internal accruals out of total project cost of ₹894 crore. Further, post funding this capex, as on September 30, 2024, MIL had ~₹140 crore of cash and liquid investments.

The company has generated lower cash accruals of ₹39.32 crore in H1FY25 with H2FY25 likely to provide for better accruals (given price hike taken in August 2024 and some cost efficiencies brought in). However, the company may use its available liquidity for any shortfall in meeting its repayment obligations of ₹115-125 crore for FY25. Average fund-based working capital limit utilisation remained moderate at 75% for 12 months ended October 2024, providing adequate liquidity buffer. With a gearing of 0.58x as on September 30, 2024, the company has sufficient gearing headroom to raise additional debt in case of exigencies.

Key Weaknesses

Subdued performance in H1FY25 leading to moderation in debt coverage indicators

MIL's TOI grew by 4% y-o-y in FY24. The increase in revenue is marked by increase in sales volumes, while realisations slightly moderated. The PBILDT margin moderated from 11.81% in FY23 to 9.86% in FY24 considering increase in input/RM prices and absence of any price hike on products in FY24. However, in H1FY25, the company's profitability deteriorated owing to increased fixed cost and higher capital charge emanating from delay in stabilisation of newly implemented particle board plant as well as internal reorganisation of the process (implementation of SAP software) and people. The PBILDT margin declined to 4.47% in H1FY25 against 11.93% in H1FY24. Consequently, the company's performance for FY25 is expected to be significantly weaker than the earlier envisaged performance.

Subdued performance led to moderation in the company's debt coverage indicators with total debt to gross cash accruals (TD/GCA) moderating from 3.74x as on March 31, 2024, to 10.30x as on September 30, 2024. Interest coverage ratio also reduced from 8.09x in FY24 (12.86x in FY23) to 1.85x in H1FY25.

Delay in stabilisation of the particle board project

MIL has set up a greenfield engineered wood/particle board plant, pre-lam particle board unit and a furniture manufacturing unit in Halol, Gujarat, at a cost of ~₹894 crore. There has been delay in stabilisation of the plant along with time overrun and cost overrun due to delay in supply of machineries from Europe due to the Russia-Ukraine war and change in requirement of certain machineries and ancillary items in order to achieve high quality particle board. However, cost overrun has been funded entirely from surplus funds and accruals available with the company with availment of debt of ₹325 crore as envisaged.

Working capital intensive nature of operations

The company's operations 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 ~30-45 days and avail credit from its suppliers of ~45-60 days. The company's operating cycle moderated from 92 days in FY23 to 104 days in FY24.

Raw material price fluctuation risk and exposure to foreign exchange fluctuation
Raw material cost formed ~60%-65% of MIL's total cost of sales in FY20-FY24. The major raw materials for the company are paper and various chemicals. The design paper that imparts the required design to laminates is primarily imported from Europe. Around 30%-40% of the Kraft paper, which lends thickness to laminates is imported from USA, while the balance is domestically sourced. Other major raw materials, which consists of phenol, melamine, and methanol are primarily (~70%-80%) imported from China and the USA. Methanol and Phenol being primary chemical requirements, their availability and price has a significant impact on the company's operating margins. Prices of both products in the international market are highly volatile (as they are a crude oil derivative). Furthermore, any increase in raw material prices is normally passed on to customers largely with certain time lag and depend on competitive landscape.
MIL imported raw materials worth ₹401.01 crore in FY24 against ₹502.69 crore in FY23. Total expenditure in foreign currency for FY24 stood at ₹576.16 crore against ₹812.76 crore in FY23. As the company earns ~30% of its revenue through exports (₹660.86 crore in FY24 against ₹640.71 crore in FY23), it is partially insulated against foreign exchange fluctuation through natural hedging.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Plywood boards/ laminates

MIL is the Merino group's flagship company. 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 over 81 countries. It is also engaged in 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)	FY23 (A)	FY24 (A)	H1FY25 (Prov)
Total operating income	2188.65	2267.67	1128.70
PBILDT	258.41	223.53	50.50
PAT	117.65	121.54	-18.80
Overall gearing (times)	0.53	0.59	0.58
Interest coverage (times)	12.86	8.09	1.85

A: Audited; Prov: 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

Detailed explanation of covenants of rated 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	January, 2027	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-EPC/PSC		-	-	-	0.00	Withdrawn
Fund-based - ST-Working Capital Demand loan		-	-	-	0.00	Withdrawn
LT/ST Fund-based/Non-fund-based-PSF/CC/LC/BG		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit		-	-	-	0.00	Withdrawn

Annexure-2: Rating history for last three years

Sr. No.	Name of the 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	-	-	1) CARE A+; Stable (24-Mar-25)	1)CARE AA-; Stable (26-Mar-24)	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)
2	Fund-based - LT/ ST-EPC/PSC	LT/ST	-	-	1) CARE A+; Stable / CARE A1+ (24-Mar-25)	1)CARE AA-; Stable / CARE A1+ (26-Mar-24)	1)CARE AA-; Stable / CARE A1+ (27-Dec-22)	1)CARE AA-; Stable / CARE A1+ (06-Jan-22)
3	Fund-based - LT-Cash Credit	LT	-	-	1) CARE A+; Stable (24-Mar-25)	1)CARE AA-; Stable (26-Mar-24)	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)
4	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A1+ (24-Mar-25)	1)CARE A1+ (26-Mar-24)	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (06-Jan-22)
5	Fund-based - LT-Working Capital Demand loan	LT	-	-	1)CARE A+; Stable (24-Mar-25)	1)CARE AA-; Stable (26-Mar-24)	1)CARE AA-; Stable (27-Dec-22)	1)CARE AA-; Stable (06-Jan-22)
6	Fund-based - ST-Working Capital Demand loan	ST	-	-	1)CARE A1+ (24-Mar-25)	1)CARE A1+ (26-Mar-24)	1)CARE A1+ (27-Dec-22)	1)CARE A1+ (06-Jan-22)
7	Fund-based/Non-fund-based-Short Term	ST	-	-	-	-	1)Withdrawn (27-Dec-22)	1)CARE A1+ (06-Jan-22)
8	LT/ST Fund-based/Non-fund-based-PSF/CC/LC/BG	LT/ST	-	-	1)CARE A+; Stable / CARE A1+ (24-Mar-25)	1)CARE AA-; Stable / CARE A1+ (26-Mar-24)	1)CARE AA-; Stable / CARE A1+ (27-Dec-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 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 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.

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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.