Mehali Papers Private Limited

May 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	175.00	CARE BBB+; Stable	Assigned
Long-term / Short-term bank facilities	160.00	CARE BBB+; Stable / CARE A2	Downgraded from CARE A-; Negative / CARE A2+
Short-term bank facilities	5.50	CARE A2	Downgraded from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Mehali Papers Private Limited (MPPL) factor in continued subdued profitability leading to higher-than-envisaged net losses in 9MFY25 (9M refers to April 01 to December 31). Profit margins have declined over the last two years, ending in FY24, and further moderated in 9MFY25. This trend is primarily due to constrained net sales realisation (NSR), caused by a persistent demand-supply mismatch in the duplex paper board segment which further aggravated by the volatile freight and fuel cost. The subdued profitability is expected to continue in the near term; however, some recovery is envisaged from the latter part of FY26, considering moderation in the key input prices and envisaged benefit from certain process improvement measures undertaken by the company.

Ratings continue to derive strength from extensive experience and resourcefulness of promoters, location advantage and established marketing arrangements with geographically diversified clientele. CARE Ratings Limited (CARE Ratings) also takes cognizance of moderation in capital structure and debt coverage indicators in 9MFY25, however, it continues to remain under control and further supported by a strong net worth base, which also includes interest-free subordinated unsecured loans from the promoters.

However, ratings continue to remain constrained due to risk associated with on-going capacity expansion project, presence in the highly fragmented and cyclical paper and paper product industry, vulnerability of its profitability to volatile input prices and exchange rate fluctuations, and the need for continuous compliance with stringent pollution control norms.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in the scale of operation with improvement in the profit before interest, lease depreciation and tax (PBILDT) margin leading to an increase in cash accruals.
- Improvement in debt coverage indicators marked by total debt to PBILDT below 4.00x on a sustained basis.

Negative factors

- Inability to maintain its profitability margins.
- Deterioration in financial risk profile marked by overall gearing above 0.75x and PBILDT interest coverage below 3x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CARE Ratings' expectation that MPPL would continue to benefit from the experienced promoter and established customer base, particularly in the export market. The financial risk profile is expected to remain moderate, with a healthy net-worth base and relatively low debt levels.

Detailed description of key rating drivers:

Key strengths

Long-standing experience of promoters in paper industry and their technical expertise

MPPL was promoted by Alimohamed Nathani and Ashraf Nathani, who have extensive experience in the paper manufacturing industry. Alimohamed Nathani, the chairman, has over four decades' experience in paper industry including paper manufacturing machinery. He began with a small mill in 1973 and launched Ruby Macons Limited (RML) in 1986, expanding it from 20 tonnes per day (TPD) to 750 TPD over 25 years. Ashraf Nathani joined RML as a director in 1990. In late 2012, Nathani family sold their equity stake in RML to MeadWestvaco Corp.

Established marketing arrangement, geographically diversified customer base and location advantage

Having been in the paper industry for a long time, the company has established a robust marketing network and clientele in export and domestic markets. MPPL markets its products through a network of agents, enhancing credit risk management,

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

dispatch and logistics efficiency, and maintaining lean debtor days. MPPL serves over 650 domestic customers through a network of 15 agents across PAN India and in the middle east countries.
Its customer concentration risk remains moderate, with the top ten customers forming ~40% net sales in FY24 and 9MFY25 (FY23: 36%). MPPL has strong export presence across over 30 countries, with key markets including the United Arab Emirates, Vietnam and Malaysia, among others. Export sales form ~54% of TOI in FY24 (FY23: 59%) and 57% in 9MFY25.
MPPL's proximity to port facilitates easy importation of key raw materials, such as wastepaper and fuel (coal). It also has access to the Rajpardi Lignite mines of Gujarat Mineral Development Corporation Limited situated near its plant. These collectively aid in savings in transportation costs and lead time for the material.

Stable scale of operations and comfortable capital structure
MPPL's total operating income (TOI) is estimated to be at ~₹740 crore in FY25; a marginal growth of ~3% over FY24. Aligned with the moderation in the NSR, TOI too moderated in the last two years ended FY25, however, sales volume remained resilient and supported the operations.
MPPL's capital structure continued to remain comfortable with envisaged overall gearing of ~0.47x as on March 31, 2025 (0.32x as on March 31, 2024), and below 0.75x of total outside liability to tangible net-worth (TOL/TNW). Despite moderation in the profitability and availment of the debt for on-going capex, MPPL is expected to sustain comfortable capital structure, supported by its healthy net-worth base and nil long-term debt under its existing operations. MPPL has a strong net worth base of ₹515.72 crore as on March 31, 2024, which includes interest free subordinated unsecured loan of ₹225 crore from promoters.

Key weaknesses

Continued subdued profitability leading to moderation in debt coverage indicators
The company's operating profitability has exhibited a sequential decline in the last two years, ended FY24, and further moderated in 9MFY25 due to an ongoing oversupply situation in the duplex paper board segment, exerting pressure on the NSR. PBILDT margin remained subdued at 1.54% in 9MFY25 (FY24: 3.93%) and envisaged to remain at similar level in FY25. While profitability remained subdued, moderate depreciation and interest and finance costs led to net loss of ~₹20 crore in 9MFY25. Gross cash accruals (GCA) remained low at ₹5.64 crore in 9MFY25.
Decline in profitability and increase in overall debt led to further moderation in the debt protection metrics with PBILDT interest coverage ratio of 2.20x (FY24: 7.84x) and total debt to PBILDT of over 20x (FY24: 5.91x) in 9MFY25. The debt levels remained high mainly due to availment of term debt for ongoing capex for implementation of new paper manufacturing unit which is envisaged to be operated from FY28.

Project risk associated with capacity expansion project
MPPL is undertaking capacity expansion project at a total cost of ~₹570 crore. The capacity expansion project would augment its production capacity by ~1,30,000-1,50,000 MTPA.
The project shall be implemented in two phases which include installation of paper manufacturing unit, waste to energy plant and windmill project under phase I and installation of power, water and effluent treatment plant (ETP) and supporting infrastructure under phase II. Waste to energy plant and windmill project have been completed in FY24. MPPL imported a second hand plant from Italy and installation is going on at existing manufacturing site. The building's construction and the machinery's installation is envisaged to be completed by the end of H1FY26. Total cost for phase I capex is estimated at ~₹220 crore which is being funded through term loan of ₹175 crore and balance from internal accruals. As on December 31, 2024, MPPL incurred total cost of ~₹213 crore, which was entirely funded through term loan.
While the company has already secured term debt of ₹175 crore as on March 31, 2025, additional debt requirement and its tie-up for phase II is under planning stage.
Considering the subdued industry scenario, the second phase of the capex has been further deferred by a year and majority capex is now planned in FY27, with commencement of operations envisaged in FY28. There has been upward revision in the total project cost compared to the initial estimate, owing to the requirement of some refurbishment and modification in the imported plant and supporting infrastructure.
The company has sufficient capacities available in existing operations to cater the present demand. The project's completion within revised timeline and cost parameters shall remain crucial for credit risk profile and hence a key rating monitorable. Considering the established track record of promoters in the paper manufacturing industry and capex being product expansion, stabilisation risk remains low.

Profitability susceptible to volatility in input prices and foreign exchange rate
Raw material (wastepaper) and power and fuel cost (coal and fuel) constitute ~65%-68% and 11%-15%, respectively, of the total cost of sales. While imported coal and wastepaper prices remain volatile and depend on global demand-supply

dynamics, finished product prices are directly correlated to the wastepaper prices. Adverse variation in wastepaper and power and fuel prices impact operating profitability of players including MPPL, considering intense competition in the industry. MPPL imports majority raw material requirements (~75-78%), which is relatively cheaper. In FY24 and 9MFY25, import proportion reduced to ~65% which led to an increase in overall raw material costs.
MPPL has a partial natural hedge available as its export sales was ~₹325 crore in FY24 and ₹249 crore in 9MFY25 compared to its imports of ~₹197 crore in FY24 and ₹166 crore in 9MFY25, mitigating exchange risk fluctuation to an extent. However, major adverse movement in the foreign exchange rates can impact its profitability due to timing mismatch and absence of an active hedging policy.

Presence in a highly fragmented and cyclical paper industry

The Indian paper and paper products industry is highly fragmented with stiff competition from few organised players having diversified product portfolio, and large number of medium-to-small sized players. This structural composition limits pricing power to a certain extent. The sector, inherently cyclical, remains closely linked to broader macroeconomic trends, making it vulnerable to fluctuations in demand and 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. Despite near-term headwinds, demand for paperboard industry 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. These factors will simultaneously drive the duplex paper and board market in the medium-to-long term.

Stringent pollution control norms

The paper industry is recognised as one of the most polluting industries, as categorised by the Central Pollution Control Board, due to its significant consumption of fresh water. Water is utilised in nearly every stage of manufacturing, generating large volumes of wastewater and residual sludge. This presents challenges concerning wastewater treatment, discharge, and sludge disposal. MPPL is active towards balancing and minimising possible adverse impact on the environment by treatment of wastewater through effluent treatment plant (ETP) and incineration process. It has adequate approval to discharge 2,822 Kilo litres per day (KLPD) of treated water from Gujarat Pollution Control Board (GPCB). In this backdrop, continuous compliance with stringent pollution control norms is crucial for the uninterrupted operation of the players in paper manufacturing, including MPPL.

Liquidity: Adequate

MPPL's liquidity continues to remain adequate despite moderation in GCA, backed by low term debt repayment obligation, low working capital utilisation, and moderate liquidity ratios and operating cycle. Average fund-based and non-fund-based working capital limit utilisation remains low at ~42% for 12-months ended March 31, 2025, providing adequate cushion. MPPL is expected to report GCA of ~₹33-35 crore against term debt repayment obligation of ~₹27 crore in FY26. Cash flow from operation was negative at ₹11 crore in FY24 (FY23: ₹125.82 crore).
With a sizeable net-worth base of ~₹500 crore and presently low debt level, MPPL has adequate headroom to raise additional debt for its capex.
Current ratio and quick ratio continue to remain moderate at 1.66x and 0.80x, respectively, (1.93x and 0.88x, respectively, as on March 31, 2023). It has free cash and bank balance of ₹0.61 crore as on December 31, 2024.
The company's operating cycle stood moderate at ~84 days in FY24 compared to ~69 days in FY23. MPPL provides a credit period ranging from 30 days to 60 days to its customers and holds an inventory of around two months while credit period remains limited to ~20-25 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

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest materials	Paper, forest and jute products	Paper and paper products

MPPL (CIN-U21093MH2013PTC244937) is a Gujarat-based duplex paperboard manufacturer; incorporated by Ali Mohamed Nathani and his son, Ashraf Nathani, in June 2013. In 1986, Alimohamed Nathani promoted RML, a kraft paper manufacturing facility and plant and machinery manufacturing for paper industry at Vapi (Gujarat), where promoters sold their equity stake to MeadWestvaco Corp (MWV), a US-based global leader of the packaging industry in FY13. Promoters executed a green-field project for manufacturing duplex board in MPPL. MPPL has installed capacity of 2,40,000 MTPA as on March 31, 2025, and a 10-mega-watt (MW) captive power plant at Dahej, Gujarat. It manufactures products in different stiffness ranging from 80-450 GSM.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (P)
Total operating income	973.40	714.75	571.60
PBILDT	91.80	28.07	8.83
PAT	45.17	-1.69	-20.01
Overall gearing (times)	0.10	0.32	NA
Interest coverage (times)	34.94	7.84	2.73

A: Audited; P: Provisional; 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-Term Loan	-	-	-	31-03-2032	175.00	CARE BBB+; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	160.00	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	5.50	CARE A2

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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (28-Oct-22)
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	160.00	CARE BBB+; Stable / CARE A2	-	1)CARE A-; Negative / CARE A2+ (07-Oct-24)	1)CARE A; Stable / CARE A1 (09-Oct-23)	1)CARE A; Positive / CARE A1 (28-Oct-22)
3	Non-fund-based - ST-Credit Exposure Limit	ST	5.50	CARE A2	-	1)CARE A2+ (07-Oct-24)	1)CARE A1 (09-Oct-23)	1)CARE A1 (28-Oct-22)
4	Fund-based - LT-Term Loan	LT	175.00	CARE BBB+; Stable				

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-Term Loan	Simple
2	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
3	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-5: Lender details

To view 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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Jignesh Trivedi Assistant Director **CARE Ratings Limited** Phone: 079-40265631 E-mail: jignesh.trivedi@careedge.in Darshini Shah Analyst **CARE Ratings Limited** E-mail: Darshini.Shah@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 Reserve Bank of India. 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 more information: www.careratings.com

For detailed Rationale Report and subscription information, please visit www.careratings.com