Three M Paper Manufacturing Company Private Limited

March 15, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities-Term Loan	10.00 (reduced from 13.50)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	Reaffirmed
Long-term Bank Facilities-Fund based	22.00	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	Reaffirmed
Proposed Long-term Bank Facilities-Fund based	6.00 (enhanced from 2.50)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	Reaffirmed
Total Facilities	**38.00 (Rupees Thirty eight crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Three M Paper Manufacturing Co. Pvt. Ltd. (TMPM) continues to factor in moderate scale of the company's operations, thin liquidity position, moderate capital structure and debt coverage indicators, and susceptibility of the company's profit margins to volatility in the raw material prices and forex fluctuations.

Moreover, the above rating weaknesses underpinned by experienced promoters and long track record the TMPM's operations in the paper manufacturing business, and moderate working capital cycle of the company. Moreover, the total operating income has grown and debt coverage indicators have improved on y-o-y basis.

Going forward, the ability of TMPM to improve its liquidity position, capital structure, and debt coverage indicators, while increasing the total operating income and profit margins as envisaged, will remain the key rating sensitivities. While any changes in regulations affecting the paper packaging manufacturing business will remain the key rating monitorable.

Outlook: Positive

Outlook has been revised from stable to positive based on expected improvement in the company's liquidity position, capital structure, and debt coverage indicators, backed by expected plough back of profits generated by the company coupled with lower capex as envisaged in the near term. The outlook may be revised to stable depending on the company's ability to ease out the liquidity position on the back of improvement in operating performance, capital structure, debt protection metrics and lower capex, as envisaged.

Detailed description of the key rating drivers

Key Rating Weaknesses

Scale of operations continues to be modest; albeit, grown on y-o-y basis

Owing to increase in realizations, the company's total operating income increased by 6.45% on Y-o-Y basis from Rs.180.81 crore in FY17 to Rs.192.47 crore in FY18. However, the company's scale of operations still continues to be modest. Modest scale of operations coupled with presence of large number of players in the industry results in the low pricing power for the players in the industry. Furthermore, owing to the moderate profit margins and small equity base, the company's tangible net worth continues to be small at Rs.33.97 crore as on March 31, 2018.

Improvement in the capital structure and debt coverage indicators; albeit continues to be moderate

Improved realizations on the products sold during the year resulted in better profit margins for the company, translating into higher gross cash accruals. As the cash generated from operations was utilized to fund part of its working capital requirements it resulted into marginal reduction in the working capital borrowings, and the company's overall gearing improved to 1.63 times as on March 31, 2018 as compared to 2.02 times as on March 31, 2017. The overall gearing of the company further improved to 1.59 times as on December 31, 2018.

Moreover, higher GCA and marginal decline in outstanding debt as on March 31, 2018 also helped the company to reduce its interest cost. Hence, TMPM's debt coverage indicators also improved marginally as seen from PBILDT interest coverage ratio of 2.64 times (P.Y:1.95 times) and total debt to GCA ratio of 5.25 times (P.Y: 8.67 times) as on March 31, 2018. However, during 9MFY19 higher interest expense resulted in marginal decline in the PBILDT interest coverage to 2.44 times. Nevertheless, the capital structure and the debt coverage indicators continues to be moderate.

Thin liquidity position

The company's liquidity position continues to be thin as seen from current ratio of 0.93 times and quick ratio of 0.54 times as on March 31, 2018. As on December 31, 2018 the company had marginal cash and cash balances of Rs.0.23

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

crore. Moreover, the company's fund based limits also remains almost fully utilized with average utilization levels in the range of around 90-95% for the last twelve months ending January 31, 2019. High utilization of fund based limits indicates thin cushion for the company to have funds in case of any exigency.

Profit margins susceptibility to volatility in the forex fluctuation

During FY18, the company derived around Rs.32.43 crore from exports of products; whereas, import of raw materials resulted in forex outflow of Rs.37.59 crore resulting into major portion of imports being naturally hedged against exports of its products. Nonetheless, some portion of the raw materials still remains un-hedged. Hence, any adverse movement in the foreign currency rates may impact the company's profit margins. During FY18, the company had foreign exchange gain of Rs.0.49 crore (P.Y:0.16 crore). As on March 31, 2018 the company had un hedged net foreign currency exposure (liability) of Rs.2.85 crore.

Key Rating Strengths

Experienced promoters and long track record of the company's operations

TMPM's promoter, Mr Hitendra Shah, is associated with the paper industry for more than two decades having a wide experience in marketing, management & administration and has got in-depth knowledge of the paper industry. His son, Mr Rushabh Shah (B.E. from UK), looks after production factory co-ordination and, marketing of the products. Furthermore, they are assisted by a team of qualified professionals in technical, administrative, finance and marketing fields.

Moderate working capital cycle

The company's operating cycle continues to be moderate with average working capital cycle of around 32 days as on March 31, 2018 as compared to 38 days as on March 31, 2017. The marginal improvement in the working capital cycle was on account of higher creditor period availed from its creditors which increased from average creditor period of 59 days as on March 31, 2017 to 78 days as on March 31, 2018.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company

Three M Paper Manufacturing Company Private Limited (TMPM) was incorporated in 1989 and is engaged in manufacturing of coated/uncoated duplex paper boards used in industrial packaging. TMPM's manufacturing facility is located at Kheri-Chiplun (near Ratnagiri) with an installed capacity of 66,000 tonnes per annum (TPA) to manufacture duplex paper board made out of recycled waste papers & pulp. TMPM procures recycled waste paper and chemicals primarily from the domestic market (around 83% in FY18) through various dealers and agents. The manufacturing is largely backed by confirmed orders from various distributors, agents and dealers who in turn have tie-ups with converters that carry out printing jobs for the end-user customers. These paper boards are mainly used for packaging in pharmaceuticals and fast moving consumer goods industries like cosmetics, health care, readymade garments, instant food, match-boxes, incense sticks, cigarette, etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	180.81	192.47
PBILDT	14.13	17.02
PAT	1.10	4.31
Overall gearing (times)	2.02	1.63
Interest coverage (times)	1.95	2.64

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.
Any other information: Not Applicable.
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	July 25, 2023	10.00	CARE BB+; Positive
Fund-based - LT-Cash Credit	-	-	-	28.00	CARE BB+; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	10.00	CARE BB+; Positive	-	1)CARE BB+; Stable (30-Mar-18) 2)CARE BB+; Stable (10-Apr-17)	1)CARE BB+ (21-Apr-16)	-
2.	Fund-based - LT-Cash Credit	LT	28.00	CARE BB+; Positive	-	1)CARE BB+; Stable (30-Mar-18) 2)CARE BB+; Stable (10-Apr-17)	1)CARE BB+ (21-Apr-16)	-

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