Three M Paper Manufacturing Company Private Limited
March 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities-Term Loan	6.46 (reduced from 10.00)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Positive**
Long-term Bank Facilities-Fund based	15.00 (reduced from 28.00)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Positive**
Long-term/Short-term Bank Facilities-Non Fund based	15.00	**CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)**	**Assigned**
Total Facilities	**36.46 (Rupees Thirty Six crore and Forty Six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The upward revision in the rating assigned to the bank facilities of Three M Paper Manufacturing Co. Pvt. Ltd. (TMPM) factors in improved operating performance supported by captive power plant as well as improvement in company's capital structure through plough back of profits and reduction in overall debt in FY19 and 9MFY20.

The ratings continues to derive strength from experienced promoters and long track record of the TMPM's operations in the paper manufacturing business, wide applicability of paper boards ensuring steady demand as well as moderate working capital cycle of the company.

Above rating strengths are however tempered by susceptibility of profit margins to volatility in raw material prices and forex fluctuations as well as low entry barriers with high competition from organized and unorganized players.

Key rating sensitivities:

Positive factors:

- Improvement in PBILDT margins above 10% on a sustainable basis through increase in sales volume
- Decline in overall gearing below unity on a consistent basis

Negative factors:

- Decrease in PBILDT margins below 6% on sustainable basis
- Increase in overall gearing above 1.60 times on a consistent basis on account of debt funded capex or increase in working capital borrowing

Detailed description of the key rating drivers

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.

Growth in total operating income and stable profitability

The company's total operating income increased by 3.06% on Y-o-Y basis from Rs.192.47 crore in FY18 to Rs.198.36 crore in FY19. However, PBILDT margins declined from 8.84% in FY18 to 7.68% in FY19 on account of marginal growth in sales volume coupled with increase in raw materials costs as a per cent of operating income. Overall slowdown in consumer products industry affected demand in the packaging industry.

The company recorded revenue from operations of Rs.136.15 crore in 9MFY20 (68% of projected revenue for FY20) and PBILDT margins stood at 8.70%.

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

Prior to February, 2014 the company was entirely dependent on state electricity board for its power requirement, hence power costs were very high and there was uncertainty of supply during monsoon. In order to get continuous power supply and for improving operating efficiencies, the company setup a coal-based (thermal) 4.0 MW Captive Power Plant (CPP) at a cost of Rs.23.5 crore; which commissioned in March, 2014. Company's power costs have reduced significantly due to the said power plant over the years thereby improving operating efficiency.

Improvement in capital structure and debt coverage indicators

The company's overall gearing slightly improved from 1.63 times as on March 31, 2018 to 1.52 times as on March 31, 2019 mainly due to timely repayment of long term debt. As on March 31, 2019, total debt includes term loan from banks/FIs of Rs.14.81 crore, loans from related parties of Rs.21.91 crore and working capital of Rs.21.86 crore. However, total debt to gross cash accruals increased from 5.25 times in FY18 to 6.86 times in FY19. Marginal deterioration in debt coverage indictors in FY19 is mainly due to increase in interest expenses during the year. The company availed unsecured loans from financial institutions amounting Rs.5.75 crores during FY19 for setting up waste paper dispersal plant. The said capex ensured that the company could use low quality waste paper also, thereby reducing the costs of raw materials.
Overall gearing improved to 1.31 times as on December 31, 2019 mainly due to repayment of HDFC Bank term loan and partial repayments of unsecured loans. The debt coverage indicators are also expected to improve with reduced debt repayments as well as improved cash accruals.

Moderate working capital cycle

The company's operating cycle continues to be moderate with average working capital cycle of around 35 days as on March 31, 2019 as compared to 32 days as on March 31, 2018. The marginal increase in the working capital cycle was on account of higher inventory holding period. The company manages working capital requirements through short term working capital loans from banks as a result of which utilisation of working capital limits has remained on higher side. However, company has enhanced its working capital limits from Rs.22 crore to Rs.27.50 crores in March, 2020 thereby providing additional cushion to meet working capital requirements.

Wide applicability of duplex paper boards; ensuring assured demand offtake

The company manufactures and sells coated/uncoated duplex paper boards which are used for packaging in pharmaceuticals and fast moving consumer goods companies in segments such as cosmetics, health care, readymade garments, instant food, match-boxes, incense sticks, cigarette, etc. Wide applicability of the manufactured product ensures limited impact of cyclicality of particular end user industry resulting in assured demand offtake.

Key Rating Weaknesses

Profit margins susceptibility to volatility in raw material prices and competitive market scenario

The company is engaged in manufacturing of duplex paper from waste paper of which 35% is imported from USA and Europe. The raw material costs accounts for 65% of total operating costs.

Company's PBILDT margins declined from 8.84% in FY18 to 7.68% in FY19 mainly on account increase in raw materials costs as a per cent of operating income. Also, duplex paper board industry has large number of organised and unorganised players which limits company's ability to pass on increase in raw material prices to end users.

Volatility of profits on account of foreign currency exposure

In FY19, the company derived around Rs.63.97 crore from exports of products. The company exports its products to customers based in Dubai, Sri Lanka, Vietnam, Singapore, and Cambodia. Import of raw materials resulted in forex outflow of Rs.31.85 crore resulting into major portion of imports being naturally hedged against exports of its products. However, any adverse movement in the foreign currency rates may impact the company's profit margins. During FY19, the company had foreign exchange gain of Rs.0.59 crore (P.Y:0.49 crore).

Analytical approach: Standalone

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

Liquidity position: Adequate

Company's liquidity position remains adequate marked by adequate gross cash accruals against scheduled repayment obligations over medium term. The company is expecting gross cash accruals of around Rs.10 crore in FY20; sufficient for debt repayments over medium term. The company also increased its fund based limits from Rs.22 crore to Rs.27.5 crore in February, 2020. Moreover, company does not plan to avail any additional term loan for capex requirements over medium term which provides additional cushion.

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 for packaging in pharmaceuticals and fast moving consumer goods companies in segments such as cosmetics, health care, readymade garments, instant food, match-boxes, incense sticks, cigarette, etc. 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 paper. TMPM procures recycled waste paper and chemicals primarily from the domestic market (around 73% in FY19) 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.

In FY14, the company set up a 4 MW coal based captive power plant for its energy requirements.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	192.47	198.36
PBILDT	17.02	15.24
PAT	4.31	4.68
Overall gearing (times)	1.63	1.52
Interest coverage (times)	2.64	2.27

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

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	6.46	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	15.00	CARE BBB-; Stable / CARE A3

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	6.46	CARE BBB-; Stable	-	1)CARE BB+; Positive (15-Mar-19)	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	15.00	CARE BBB-; Stable	-	1)CARE BB+; Positive (15-Mar-19)	1)CARE BB+; Stable (30-Mar-18) 2)CARE BB+; Stable (10-Apr-17)	1)CARE BB+ (21-Apr-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	15.00	CARE BBB-; Stable / CARE A3	-	-	-	-

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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