Three M Paper Manufacturing Company Private Limited

March 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities-Term Loan	13.50 (enhanced from 6.50)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Re-affirmed
Long-term Bank Facilities-Fund based	22.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Re-affirmed
Proposed Long-term Bank Facilities-Fund based	2.50 (reduced from 5.00)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Re-affirmed
Total Facilities	**38.00 (Rs. 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 the company's leveraged capital structure and thin profitability margins. The rating also factors in modest scale of operations, fragmented nature of industry, and exposure of TMPM's profit margins to foreign exchange fluctuation.

The above rating weaknesses are, however, underpinned by vast experienced promoters growing total operating income, improvement in profitability margin in FY17 on year on year basis and improvement in operating cycle of the company.

Going forward, the company's ability to improve it's the capital structure and debt service coverage indicators while increasing its total operating income and profit margins will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Despite growth in total operating income scale of operations continues to be modest

The total operating income of the TMPM continues to grow in FY17 on back of increase in sales volume of paper boards which contributes slightly more than 98% to the total operating income of the company. The sales volume of the paper boards grew by 7.02% y-o-y in FY17 which led to 8.61% y-o-y growth in the gross sales which grew from Rs.172.02 crore in FY16 to Rs.186.83 crore in FY17. Nonetheless, with total operating income of Rs.180.81 crore and total installed capacity of 66,000 MTPA the company's scale of operations remains to be modest.

Profit margins remain to be thin; albeit marginally improved on year on year basis

The company's profit margins remain to be thin largely owing to its moderate product and customer profile. However, the company's PBILDT margin improved marginally from 6.78% in FY16 to 7.81% in FY17, mainly on account of other operating income relating to subsidy and export incentives. Furthermore, the company made net profit of Rs.1.10 crore in FY17 as against net loss of Rs.1.27 crore reported in FY16. Improved profit margins also resulted in the marginal improvement of the gross cash accruals of the company. The gross cash accruals of TMPM improved to Rs.4.72 crore in FY17 from Rs.3.28 crore in FY16.

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

Leveraged capital structure

Owing to thin profit margins and low gross cash accruals, the company relies heavily on debt financing for funding its working capital as well as capex requirements. This has resulted in the leveraged capital structure for the company as indicated form overall gearing of 2.02 times and total debt to GCA of 12.68 times as on March 31, 2017. Furthermore, high debt levels also results high finance and interest charges , which coupled with thin profitability leads to weak debt coverage indicators for the company, as seen from PBILDT interest coverage ratio of 1.65 times in FY17. Furthermore, the company's plants are operating at high capacity utilization of around 90% which entails further addition in the capacity for increasing its scale of operations. Capital required to fund further capacity addition, though not significant, puts pressure on liquidity of the firm as the company also needs to service its term loan repayments. Nonetheless, directors of the company have been supporting the business through infusion of funds in the form of unsecured loans. During FY17, the directors of the company further infused Rs.2.77 crore resulting into increase in unsecured loans from directors to Rs.21.87 crore for the year ending March 31, 2017.

Exposure to foreign exchange fluctuation

During FY17, TMPM earned Rs.24.48 crore from exports of the paper boards to countries such as Sri Lanka and UAE. The company also imports part of its raw material requirements from U.S and New-Zealand. Thus, a large portion of the company's earnings are naturally hedged. However, a small portion of the earnings still remains un-hedged. As the company does not have any hedging policy its profitability remains exposed to volatility in the foreign exchange up-to some extent.

Fragmented and highly competitive nature of industry

The packaging industry is highly fragmented due to low entry barriers and limited product differentiation. The segment is price-competitive as the end-user segments mainly comprise industries with bulk requirements and superior bargaining power, which makes it difficult for the packaging manufacturers to have price flexibility.

Key Rating Strengths

Experienced promoters

The promoter Mr. Hitendra Shah is associated with the paper industry for the last 21 years 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. Further, they are assisted by a team of qualified professionals in technical, administrative, finance and marketing fields.

Improvement in Operating Cycle

The overall operating cycle of the company improved further as the company was able to increase its payable period from average of 46 days as on March 31, 2016 to average of 59 days as on March 31, 2017. The average operating cycle of the company improved from 49 days as on March 31, 2017 to 38 days as on March 31, 2017.

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 (95%) & pulp (5%). TMPM procures recycled waste paper and chemicals primarily from the domestic market (around 83% in FY17) 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)	FY16 (A)	FY17 (A)
Total operating income	163.28	180.81
PBILDT	11.08	14.13
PAT	-1.73	1.49
Overall gearing (times)	2.21	2.02
Interest coverage (times)	1.43	1.95

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	-	-	-	13.50	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	24.50	CARE BB+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	13.50	CARE BB+; Stable	1)CARE BB+; Stable (10-Apr-17)	1)CARE BB+ (21-Apr-16)	-	1)CARE BBB- (06-Feb-15)
2.	Fund-based - LT-Cash Credit	LT	24.50	CARE BB+; Stable	1)CARE BB+; Stable (10-Apr-17)	1)CARE BB+ (21-Apr-16)	-	1)CARE BBB- (06-Feb-15)

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