Three M Paper Manufacturing Private Limited

April 10, 2017

Rating

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Remarks**
Long-term Bank Facilities	38.75	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**38.75 (Rupees Thirty Eight Crore and Seventy Five Lakh only)**		

Detailed Rationale and Key Rating Drivers

The reaffirmation of the rating to the bank facilities of Three M Paper Manufacturing Private Ltd (TMPM) is on account of continuing losses, no savings in power cost as envisaged from captive power plant on account of lower capacity utilisation and its presence in highly competitive and fragmented industry resulting in low bargaining power.

However, the ratings derive strength from the experience of its promoters in the paper packaging industry, modest improvement in revenue, comfortable capital structure and moderate operating cycle.

Going forward, the ability of the company to increase its scale of operations and deriving benefits from the captive power plant thereby improving its profitability will be the key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters: The promoters of the company has an experience of more than 20 years in the paper industry who are further assisted by a dedicated team of highly qualified professionals in technical, administrative, finance and marketing fields.

Marginal improvement in capital structure and debt servicing indicators: The company's overall gearing has improved to 0.85x as on March 31, 2016 as compared to1.04x as on March 31, 2015 (considering Rs20.79 cr. of subordinated debt as Quasi Equity). The interest coverage ratio has also improved to 1.43x in FY16 vis-à-vis 1.10x for FY15.

Moderate Operating Cycle: The operating cycle of the company has improved from 57 days in FY15 to 49 days in FY16 and its average working capital utilization was 87.40% for the 12 months period ending Jan'17.

Key Rating Weakness

Modest improvement in revenue and PBILDT margins in FY16 & 9MFY17, albeit net loss continued in FY16 too: In FY16, the company's revenue has increased by 10.35% yoy to Rs.163.28 cr. on account of increase in the sales volume. Also, its PBILDT margin improved to 6.78% in FY16 from 5.47% in FY15. However, the Company has incurred losses in FY16 due to its high interest cost burden.

No savings in power cost as envisaged from captive power plant*:* During FY16, the benefits of the captive power were not realised due to lower capacity utilization, however from Q3FY17, the company has increased its production which will result into savings in power & fuel cost going further.

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

Low pricing power due to high competition and fragmented 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.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short Term Ratings]
[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 87% in FY16) through various dealers and agents. The manufacturing is 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.
In FY16 (refers to the period April 01 to March 31), the company reported a turnover of Rs.163.28 crore (vis-a-vis Rs.153.80 crore in FY15) with a net loss of Rs.1.27 crore (vis-a-vis net loss of Rs.3.14 crore in FY15). Furthermore, the company has achieved a turnover of Rs.132.93 crore in 9MFY17 (refers to the period April 01 to December 31) with an operating profit of Rs.11.11 crore.

Status of non-cooperation with previous CRA: None

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	Feb-2020	11.75	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	27.00	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	11.75	CARE BB+; Stable	-	1)CARE BB+ (21-Apr-16)	-	1)CARE BBB- (06-Feb-15)
2.	Fund-based - LT-Cash Credit	LT	27.00	CARE BB+; Stable	-	1)CARE BB+ (21-Apr-16)	-	1)CARE BBB- (06-Feb-15)

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CIN - L67190MH1993PLC071691