

Mr. Hitendra Dhanji Shah
Chairman
ThreE-M-Paper Manufacturing Company Private Limited
Royal Industrial Estate, Office No. A-33/34, 1st Floor,
Naigaon Cross Road,
Mumbai
Maharashtra 400031

January 08, 2024

Confidential

Dear Sir,

Credit rating for bank facilities aggregating to Rs. 62.40 crore

1. Please refer to our letter dated December 22, 2023, on the above subject.
2. The rationale for the ratings is attached as an **Annexure - I**.
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 09, 2024, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,



Ruchi Sanghavi
Assistant Director
ruchi.shroff@careedge.in

Encl: as above

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Annexure I
Rating Rationale
ThreE-M-Paper Manufacturing Company Private Limited

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	51.57 (Reduced from 59.90)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	5.33	CARE BBB-; Stable / CARE A3	Assigned
Short Term Bank Facilities	3.00	CARE A3	Assigned
Short Term Bank Facilities	2.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of ThreE-M-Paper Manufacturing Company Private Limited (TMPM) continue to derive strength from experienced promoters and long track record of the company's operations in the paper industry, wide applicability of paper boards ensuring steady demand as well as moderate working capital cycle of the company. The ratings further continue to derive strength from moderate scale of operations and moderate profitability margins.

The above strengths, however, continue to be offset by moderately leveraged capital structure and debt coverage indicators, susceptibility of profit margins to volatility in raw material prices, competitive market scenario and exposure to foreign currency fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in interest coverage above 5 times on a sustained basis.
- Improvement in overall gearing below unity on a sustained basis.

Negative factors

- Deterioration in operating cycle of more than 80 days with increase in utilization of working capital borrowings.
- Deterioration in capital structure by any debt funded capex undertaken.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers:

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. Furthermore, they are assisted by a team of qualified professionals in technical, administrative, finance and marketing fields.

Moderate scale of operation

The scale of operation of TMPM have remained moderate since FY19-22, with a degrowth of 11.45% in FY21 on account of Covid-19 pandemic, followed by a growth of 90.44% in FY22 with re-commencement of operations post-covid. TMPM's total operating income grew marginally by 3.95% on Y-o-Y basis from Rs. 318.70 crore in FY22 to Rs. 331.29 crore in FY23 due to increased demand of export and domestic orders from existing and new clients. Furthermore, TMPM has already booked sales of Rs. 128.97 crore during H1FY24.

Moreover, despite the growth in scale of operation, the tangible networth of TMPM remained modest at Rs. 47.07 crore as on March 31, 2023 (vis-à-vis Rs. 40.54 crore as on March 31, 2022).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Moderate profitability margins

The operating margin of TPM have reflected a fluctuating trend in the past due to volatility in the raw material prices (which accounts for around 67% of the total cost in FY23).

In FY23, PBILDT margin improved to 6.36% from 5.43% in FY22, despite decline in sales realization, on account of marginal savings in selling expenses.

The PAT margin also improved in lines with the PBILDT margin from 1% in FY22 to 1.97% in FY23. TPM's profitability improved during H1FY24 marked by PBILDT margin of 7.66%, however the same is expected to remain stable at around 6% in near term.

Moderate working capital cycle

The operating cycle of TPM deteriorated to 32 days in FY23 (vis-à-vis 25 days in FY22) owing to funds being blocked in debtors. TPM generally gives credit period to customer of 30-90 days depending upon the order. In FY23, the receivables improved in absolute terms owing to stringent policy adopted by the management. However, the collection period deteriorated to 49 days in FY23 vis-à-vis 43 days in FY22 due to averaging effect.

TPM has to maintain inventory for continuous manufacturing requirement and thus it maintains inventory days of around 30 days. Owing to established relations with the suppliers over the years it gets around 30-90 days credit from its creditors thus setting-off the working capital cycle to a certain extent.

Wide applicability of duplex paper boards

TPM 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, matchboxes, incense sticks, cigarette, etc. Wide applicability of the manufactured product ensures limited impact of cyclical of end user industry resulting in assured demand offtake.

Adherence to ESG norms

A large amount of water as well as various chemicals are used for manufacturing paper and paper products. Therefore, TPM belongs to a polluting industry since it is exposed to varying degrees of regulatory oversight, including environmental standards in terms of scrutiny of disposal of raw material wastes and level of carbon emissions.

TPM has a certificate from Maharashtra Pollution Control Board (MPCB) regarding the environmental standards to be complied with. Further there is zero discharge of effluents and for water reuse, TPM has set up a water treatment plant.

Moderately leveraged capital structure and debt coverage indicators

The capital structure of TPM improved marginally but remained moderately leveraged with an overall gearing of 1.74 times as on March 31, 2023 (vis-à-vis 1.92 times as on March 31, 2022). The same has improved marginally owing to accretion of profits to reserves.

Due to improvement in cash accruals (which grew by ~16.97% in FY23), the total debt/GCA improved from 8.33x in FY22 to 7.46x in FY23. However, due to additional term loan availed and higher utilization of working capital limits, interest cost increased and thus, the interest coverage ratio deteriorated marginally to 2.19x from 2.40x in FY22.

Profit margins susceptibility to volatility in raw material prices

TPM is engaged in manufacturing of duplex paper from wastepaper of which ~67% is imported from USA and Europe. The raw material costs accounts for around 65% of total operating costs. Moreover, the paper board industry has large number of organised and unorganised players which limits TPM's ability to pass on increase in raw material prices to end users.

Exposed to foreign currency fluctuations risk

During FY23, TPM derived around Rs. 82.84 crore (25.64% of its revenues) from export market. TPM exports its products to customers based in Bangladesh, Sri Lanka, Vietnam, Singapore, Taiwan and Cambodia. Major portion of TPM's imports is naturally hedged against exports of its products. However, any adverse movement in the foreign currency rates may have an impact on the financials of the company. During FY23, TPM booked a foreign exchange gain of Rs. 1.94 crore (vis-à-vis Rs. 2.67 crore in FY22).

Liquidity: Adequate

The liquidity position remained adequate marked by cushion in gross cash accruals (Rs. 10.96 crores in FY23) vis-à-vis repayment obligation of Rs. 6.75 crores in FY24. The average utilization of working capital limits stood at 93.11% for past twelve months ended September 2023. The BG limits stood unutilized for the last twelve months ended November 30, 2023. Further, the current ratio and quick ratio stood at 1.21 times and 0.82 times respectively as on March 31, 2023 (vis-à-vis 1.20 times and 0.97 times respectively as on March 31, 2022). The cash flow from operations stood positive at Rs. 23 crores in FY23 (vis-à-vis negative at Rs. 9.60 crore in FY22).

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Applicable criteria

- [Policy on default recognition](#)
- [Financial Ratios – Non financial Sector](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Policy On Curing Period](#)
- [Rating Outlook and Credit Watch](#)
- [Short Term Instruments](#)
- [Manufacturing Companies](#)
- [Paper Industry](#)

About the company and industry
Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Paper & Paper Products

Incorporated in 1989, Three-M-Paper Manufacturing Company Private Limited (TMPM) 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, amongst others. TMPM's manufacturing facility is located at Kheri-Chiplun (near Ratnagiri) with an installed capacity of 72,000 tonnes per annum. TMPM procures its raw material (recycled wastepaper and chemicals) from the domestic market through various dealers and agents.

Financial Performance

(Rs. crore)

For the period ended / as at March 31,	2021 (12m, A)	2022 (12m, A)	2023 (12m, A)
Working Results			
Net Sales	165.33	312.02	323.08
Total Operating income	167.35	318.70	331.29
PBILDT	14.28	17.30	21.07
Interest	6.60	7.20	9.60
Depreciation	5.56	5.63	6.05
PBT	2.34	4.53	5.97
PAT (after deferred tax)	1.73	3.19	6.53
Gross Cash Accruals	7.55	9.37	10.96
Financial Position			
Equity Capital	6.55	6.55	6.55
Networth	37.34	40.54	47.07
Total capital employed	98.80	127.80	137.50
Key Ratios			
Growth			
Growth in Total income (%)	-11.45	90.44	3.95
Growth in PAT (after deferred tax) (%)	-156.55	85.03	104.43
Profitability			
PBILDT/Total Op. income (%)	8.53	5.43	6.36
PAT (after deferred tax)/ Total income (%)	1.03	1.00	1.97
ROCE (%)	9.05	10.41	11.74
Solvency			
Debt Equity ratio (times)	0.81	1.20	1.07
Overall gearing ratio(times)	1.43	1.92	1.74
Interest coverage(times)	2.17	2.40	2.19
Term debt/Gross cash accruals (years)	3.99	5.19	4.59
Total debt/Gross cash accruals (years)	7.09	8.33	7.46
Liquidity			
Current ratio (times)	0.99	1.20	1.21
Quick ratio (times)	0.60	0.97	0.82

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For the period ended / as at March 31,	2021 (12m, A)	2022 (12m, A)	2023 (12m, A)
Turnover			
Average collection period (days)	60	43	49
Average inventory (days)	70	32	34
Average creditors (days)	89	50	51
Operating cycle (days)	41	25	32

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated: Annexure 4

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	32.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31/10/2029	19.57	CARE BBB-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	5.33	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	1.50	CARE A3
Non-fund-based - ST-Bill Discounting / Bills Purchasing		-	-	-	3.00	CARE A3
Non-fund-based - ST-Credit Exposure Limit		-	-	-	1.00	CARE A3

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Annexure-2: Rating history of 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	19.57	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Dec-22)	1)CARE BBB-; Stable (03-Feb-22) 2)CARE BBB-; Stable (06-Apr-21)	-
2	Fund-based - LT-Cash Credit	LT	32.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (06-Dec-22)	1)CARE BBB-; Stable (03-Feb-22) 2)CARE BBB-; Stable (06-Apr-21)	-
3	Non-fund-based - ST-Bank Guarantee	ST	1.50	CARE A3	-	1)CARE A3 (06-Dec-22)	1)CARE A3 (03-Feb-22) 2)CARE BBB-; Stable / CARE A3 (06-Apr-21)	-
4	Non-fund-based - ST-Credit Exposure Limit	ST	1.00	CARE A3	-	1)CARE A3 (06-Dec-22)	1)CARE A3 (03-Feb-22)	-
5	Non-fund-based - ST-Bill Discounting / Bills Purchasing	ST	3.00	CARE A3				
6	Fund-based/Non-fund-based-LT/ST	LT/ST*	5.33	CARE BBB-; Stable / CARE A3				

*Long term/Short term.

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Annexure 3: Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	SVC Co-operative Bank Ltd	17.89
2.	HDFC Bank Ltd.	1.68
	Total	19.57

1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	SVC Co-operative Bank Ltd.	17.00
2.	State Bank of India	11.00
3.	HDFC Bank Ltd.	4.00
	Total	32.00

Total Long Term Facilities: Rs.51.57 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	1.00
2.	HDFC Bank Ltd.	0.50
	Total	1.50

2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	1.00
	Total	1.00

2.C. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	SVC Co-operative Bank Ltd.	3.00
	Total	3.00

Total Short Term Facilities: Rs.5.50 crore

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3. Long Term / Short Term Facilities**3.A. Fund Based / Non Fund Based Limits**

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Proposed	5.33
	Total	5.33

Total Long Term / Short Term Facilities: Rs.5.33 crore

Total Facilities (1.A+1.B+2.A+2.B+2.C+3.A): Rs.62.40 crore

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based – LT - Cash Credit	Simple
2	Fund-based – LT - Term Loan	Simple
3	Fund-based/Non-fund-based - LT/ST	Simple
4	Non-fund-based – ST - Bank Guarantee	Simple
5	Non-fund-based – ST - Bill Discounting / Bills Purchasing	Simple
6	Non-fund-based – ST - Credit Exposure Limit	Simple

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable

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(This follows our Press Release for the entity published on December 28, 2023)

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 RBI. 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.

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**For the detailed Rationale Report and subscription information,
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