

Rating Rationale

August 30, 2019 | Mumbai

Malu Paper Mills Limited

Long-term rating upgraded to 'CRISIL BB/Stable' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.97 Crore
Long Term Rating	CRISIL BB/Stable (Upgraded from 'CRISIL BB-/Stable')
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the long-term bank facilities of Malu Paper Mills Limited (MPML) to '**CRISIL BB/Stable**' from '**CRISIL BB-/Stable**'. The short-term rating has been reaffirmed at '**CRISIL A4+**'.

The upgrade reflects improvement in the company's capital structure and debt protection metrics on account of reduction in debt. Total debt declined to Rs 40.1 crore as on March 31, 2019, from Rs 59.8 crore the previous year. Total outside liability to adjusted networth (TOLANW) ratio improved to 1.8 times from 3.5 times. Interest coverage and net cash accrual to adjusted debt ratios increased to 2.5 times and 0.2 time, respectively, in fiscal 2019 from 1.6 times and 0.1 time the previous fiscal. Financial risk profile is expected to improve over the medium term as the entire debt is likely to be repaid in the current fiscal.

The ratings continue to reflect MPML's established track record in the kraft paper and newsprint segments, sustained business risk profile, and expectation of funding support from the promoters and group companies. These strengths are partially offset by the company's working capital intensive operations, and susceptibility to fluctuations in raw material prices.

Analytical Approach

Unsecured loans (outstanding at Rs 49.3 crore as on March 31, 2019) extended to MPML by the promoters have been treated as neither debt nor equity. That is because these loans are subordinated to all forms of borrowings and are expected to be retained in the business over the medium term.

Key Rating Drivers & Detailed Description

Strengths:

* **Established track record in the kraft paper and newsprint segments:** The Malu group comprises several entities with operations in paper, steel castings, coal trading, and electrodes industries. The group started operations in 1975 with coal trading in Maharashtra, and diversified its business to include manufacturing paper, steel castings, and welding electrodes, and processing of manganese ore. Backed by more than 20 years of experience, the promoters have gained a strong insight into local market dynamics and developed healthy relationships with customers.

* **Funding support from the promoters and group companies:** The promoters and group companies have extended unsecured loans in the past - which has helped the company reduce debt and strengthen financial risk profile, especially liquidity - and are likely to continue providing need-based financial assistance in future.

Weaknesses

* **Working capital intensive operations and debt obligations constraining the financial flexibility:** Operations are moderately working capital intensive with gross current assets (GCA) of 71 days in March 2019, likely to continue at around 70-80 days over the medium term. Due to high cost-long term debt obligations, company has used its accruals and support from group companies to reduce the long term debt- this has led to significant reliance on working capital limits to meet the working capital requirements. Any stretch in working capital cycle may constrain the financial flexibility of the company and may require support from group companies to fund these incremental working capital requirements

* **Susceptibility to fluctuations in raw material prices:** Waste paper (major raw material)The prices of paper are cyclical and volatile because of the commoditised nature of the product, which makes profitability unpredictable. Cyclical downturns and adverse variability in demand supply balance may result in lower realisations. Profitability has, therefore, remained volatile at 6.4-10.1% in the 5 fiscals ending 2019 (8.56% in fiscal 2019).

Liquidity: Stretched

Net cash accrual is likely to be Rs 8-10 crore per fiscal over the medium term against outstanding debt of Rs 16 crores as on March 2019, which is expected to be paid off in the current fiscal. There is no significant capital expenditure planned over the medium term. Bank lines were almost fully utilised in the 12 months through April 2019. Unencumbered cash and bank balances were modest at Rs 0.8 crore as on March 31, 2019. Any stretch in working capital cycle would further constrain liquidity and remain a rating sensitivity factor. Financial assistance may be expected from the promoter group whenever necessary, as in the past.

Outlook: Stable

CRISIL believes MPML will continue to benefit from its promoters' extensive experience and funding support from group companies.

Rating sensitivity factors:**Upward factors:**

- * Revenue growth of around 10% over the medium term and profitability sustained at 8-9% leading to increase in accruals
- * Closure of term loans and improvement in working capital cycle leading to moderate bank limit utilisation, thereby strengthening financial risk profile, especially liquidity

Downward factors:

- * Decline in revenue of more than 10% in fiscal 2020 and operating margin falling below 6%
- * Continuance of term loans, large working capital requirement, or a large debt-funded capital expenditure, acquisition, or dividend payout weakening financial risk profile, especially liquidity

About the Company

MPML, part of the Malu group, was incorporated in January 1994 as Malu Solvex Ltd and got its current name on April 24, 1998. The company manufactures kraft paper, newsprint, and writing and printing paper at its plants in Saoner Taluka (Maharashtra).

Key Financial Indicators

As on / for the period ended March 31	Units	2019	2018
Operating income	Rs crore	274.4	282.1
Reported profit after tax (PAT)	Rs crore	7.42	1.45
PAT margin	%	2.7	0.5
Adjusted debt/adjusted networkth	Times	1.3	2.4
Interest coverage	Times	2.5	1.6

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	2.2	CRISIL A4+
NA	Cash Credit	NA	NA	NA	24.75	CRISIL BB/Stable
NA	Letter of Credit	NA	NA	NA	12	CRISIL A4+
NA	Long Term Loan	NA	NA	Mar-2022	56.89	CRISIL BB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	1.16	CRISIL BB/Stable

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	82.80	CRISIL BB/Stable			31-05-18	CRISIL BB-/Stable	21-02-17	CRISIL BB-/Stable			CRISIL BB-/Stable
Non Fund-based Bank Facilities	LT/ST	14.20	CRISIL A4+			31-05-18	CRISIL A4+	21-02-17	CRISIL A4+			CRISIL A4+

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2.2	CRISIL A4+	Bank Guarantee	2.2	CRISIL A4+
Cash Credit	24.75	CRISIL BB/Stable	Cash Credit	24.75	CRISIL BB-/Stable
Letter of Credit	12	CRISIL A4+	Letter of Credit	12	CRISIL A4+
Long Term Loan	56.89	CRISIL BB/Stable	Long Term Loan	56.89	CRISIL BB-/Stable
Proposed Long Term Bank Loan Facility	1.16	CRISIL BB/Stable	Proposed Long Term Bank Loan Facility	1.16	CRISIL BB-/Stable
Total	97	--	Total	97	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for Paper Industry
CRISILs Criteria for rating short term debt

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