

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



## Rating Rationale

February 28, 2022 | Mumbai

### Malu Paper Mills Limited

*Ratings reaffirmed at 'CRISIL BB / Stable / CRISIL A4+ '*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.97 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BB/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A4+ (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BB/Stable/CRISIL A4+' ratings on the bank facilities of Malu Paper Mills Ltd (MPML).

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

#### Analytical Approach

Unsecured loans and inter-corporate deposits of Rs 61.48 crores as on March 31<sup>st</sup> 2021, extended to MPML by the promoters and group companies, have been treated as neither debt nor equity, as loans are subordinated to all forms of bank borrowings and are expected to be retained in the business over the medium term.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Strong track record:** With more than 20 years of experience, the promoters have gained a strong insight into local market dynamics and developed healthy relationships with customers. This should support recovery in revenue and profitability over the medium term and should benefit overall business risk profile
- **Funding support from the promoters and group companies:** The promoters and group companies have extended unsecured loans in the past—which have helped the company reduce debt and strengthen the financial risk profile and liquidity—and are likely to continue to provide need-based financial assistance in future. The Malu group comprises several entities that operate in the 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, along with processing of manganese ore.

##### Weakness:

- **Large working capital requirement:** Operations are moderately working capital-intensive, as reflected in gross current assets of 144 days as of March 2021. The company has utilised its cash accrual and support from group companies to reduce its large term debt obligation, leading to significant reliance on the working capital limit to meet the working capital requirement. Any stretch in the working capital cycle could constrain the financial flexibility and may require support from group companies to fund the incremental working capital requirement.
- **Susceptibility to fluctuations in raw material prices:** Prices of waste paper (the major raw material) are cyclical and volatile as it is a commoditised product, which makes profitability susceptible to input price movements. Cyclical downturns and adverse variability in the demand supply balance may also result in lower realisations. Profitability has, therefore, remained volatile at 3.4-9.1% over the five fiscals through 2021.

#### Liquidity: Stretched

Company incurred net cash losses in fiscal 2021 and likely to incur cash losses in current fiscal against debt obligation of around Rs 1 crore, constraining liquidity. Net cash accruals are expected to improve over medium term against nil term debt obligations (term debts will be completely paid off in current fiscal). Bank limit utilisation is high at around 99 percent for the past twelve months ended September 2021. Current ratio are low at 0.57 times on March 31, 2021. There is track record of timely support from the promoter in the past and timely fund infusion is likely to continue, in case of exigencies, to meet its working capital requirements and repayment obligations, supporting liquidity profile

#### Outlook Stable

CRISIL Ratings believes MPML will benefit from the promoters' extensive experience and established relationship with customers and suppliers.

**Rating Sensitivity factors****Upward factors**

- Sustained revenue growth and improved profitability strengthening net cash accrual to above Rs 5 crore
- Closure of term loans and efficient working capital management leading to moderate bank limit utilisation, thereby strengthening the financial risk profile and liquidity

**Downward factors**

- Sustained decline in revenue (10-15% per annum over the medium term) and operating margin further weakening net cash accrual
- Stretched working capital cycle or any large, debt funded capex weakening the financial risk profile

**About the Company**

MPML, part of the Malu group, was incorporated in January 1994 as Malu Solvex Ltd. The name was changed with effect from 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		2021	2020
Operating income	Rs crore	169.60	226.31
Reported profit after tax	Rs crore	-6.12	1.08
PAT margins	%	-3.40	0.29
Adjusted Debt/Adjusted Net worth	Times	3.57	2.63
Interest coverage	Times	0.74	1.60

**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	Complexity Levels	Issue size (Rs crore)	Rating assigned with outlook
NA	Bank Guarantee	NA	NA	NA	NA	2.2	CRISIL A4+
NA	Cash Credit	NA	NA	NA	NA	24.75	CRISIL BB/Stable
NA	Letter of Credit	NA	NA	NA	NA	12	CRISIL A4+
NA	Proposed Long-Term Bank Loan Facility	NA	NA	NA	NA	58.05	CRISIL BB/Stable

**Annexure - Rating History for last 3 Years**

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	82.8	CRISIL BB/Stable		--		--	24-11-20	CRISIL BB/Stable	30-08-19	CRISIL BB/Stable	CRISIL BB-/Stable
Non-Fund Based Facilities	ST	14.2	CRISIL A4+		--		--	24-11-20	CRISIL A4+	30-08-19	CRISIL A4+	CRISIL A4+

All amounts are in Rs.Cr.

**Annexure - Details of Bank Lenders & Facilities**

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1.7	CRISIL A4+
Bank Guarantee	0.5	CRISIL A4+
Cash Credit	6.19	CRISIL BB/Stable
Cash Credit	6.19	CRISIL BB/Stable
Cash Credit	6.19	CRISIL BB/Stable
Cash Credit	3.09	CRISIL BB/Stable
Cash Credit	3.09	CRISIL BB/Stable
Letter of Credit	5	CRISIL A4+
Letter of Credit	3.5	CRISIL A4+
Letter of Credit	3.5	CRISIL A4+
Proposed Long Term Bank Loan Facility	15.4	CRISIL BB/Stable
Proposed Long Term Bank Loan	10.21	CRISIL BB/Stable

Facility		
Proposed Long Term Bank Loan Facility	14.98	CRISIL BB/Stable
Proposed Long Term Bank Loan Facility	6	CRISIL BB/Stable
Proposed Long Term Bank Loan Facility	10.3	CRISIL BB/Stable
Proposed Long Term Bank Loan Facility	1.16	CRISIL BB/Stable

## Criteria Details

Links to related criteria
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Paper Industry</a>
<a href="#">CRISILs Criteria for rating short term debt</a>

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