



## RATING RATIONALE

22 Jan, 2021

### M/s Mohit Paper Mills Limited

**Brickwork Ratings downgrades the ratings for the Bank Loan Facilities of ₹36.89 Crores of M/s Mohit Paper Mills Ltd**

#### Particulars:

Facility	Amount (₹ Crs)		Tenure	Previous Rating (Oct, 2019)	Rating Present*
	Previous	Present			
<b>Fund Based</b>	29.98	34.39	<b>Long Term</b>	<b>BWR BBB- (Stable) Reaffirmed</b>	<b>BWR BB+ (Stable) Downgraded</b>
<b>Non Fund Based</b>	2.50	2.50	<b>Short Term</b>	<b>BWR A3 Reaffirmed</b>	<b>BWR A4+ Downgraded</b>
<b>Total</b>	<b>32.48</b>	<b>36.89</b>	<b>INR Thirty Six Crores and Eighty Nine Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\*Annexure-I provides details of bank wise facilities

## RATING ACTION / OUTLOOK

**BWR downgraded the ratings of M/s Mohit Paper Mills Ltd to BWR BB+ (Stable)/A4+**

Brickwork ratings has downgraded the rating in view of the subdued business performance in FY20 and also due to the decline in the sales and profitability margins for Half yearly FY 21 as provided by the management. BWR has factored in general downtrend in the industry as a whole. Further, the widespread adoption of new media and paperless reading has led to a shrinking demand for printing & writing paper as well as newsprint. The rating of the company is also constrained by the Highly Competitive Industry with susceptibility to volatility in raw material prices and forex exposure, Intense competition and fragmented industry, Environmental and Regulatory risks posing threat to the industry, Impact of Covid- 19.



However, the rating draws its strength from the Experienced Promoters, Average Financial risk profile and Improvement in Profitability Margins.

## KEY RATING DRIVERS

### Credit Strengths:

1. **Experienced Promoters :** The promoters have experience of more than 2 decades in the paper industry and long track of operations has aided the company in establishing relationships with customers and getting repeat orders from them. The promoters have continuously extended financial support over the years to fund the business requirement of the company.
2. **Moderate Financial Risk Profile:** The financial risk profile of the company is comfortable as marked by comfortable Tangible Net worth of Rs. 33.22 Cr in FY 20. The gearing ratio of the company is also comfortable at 0.98x in FY 20. The debt protection metrics of the company are also comfortably marked by ISCR at 3.58x and DSCR at 1.99x for FY 20. The conversion cycle of the company is maintained at 44 days. The current ratio of the company is at 0.82 times which is below the benchmark. However, the same is projected to improve in the current Financial year.
3. **Improvement in Profitability Margins:** The company's profitability margins have also remained at a good level as evident from the OPM and NPM of 7.28% and 2.42% respectively in FY 20 as compared to 5.20% and 1.32% in FY 19. However, due to the impact of Covid, the profitability has suffered a major setback in the current financial year.

### Credit risks:

1. **Highly Competitive Industry with susceptibility to volatility in raw material prices and forex exposure :** Price volatility risks associated with paper, combined with competition from peers, could stress profit margins in future. Company has not adopted any formal hedging mechanism, hence profitability is susceptible to forex fluctuations risks.
2. **Intense competition and fragmented industry:** The firm faces stiff competition from other small and unorganised players in the industry, which limits its bargaining power with customers and suppliers, and hence, exerts pressure on its margins. Further, the widespread adoption of new media and paperless reading has led to a shrinking demand for printing & writing paper as well as newsprint.



3. **Environmental and Regulatory risks posing threat to the industry:** The production of paper emits various pollutants as a part of the manufacturing process. This has been a cause of concern and the pollution control boards are introducing stricter norms day after day to contain the level of pollution caused by this industry.
4. **Impact of Covid- 19:** With more intensification of COVID- 19 pandemic, the sales and profitability has suffered a major setback in the current financial year. The company has suffered a decrease in production during the current financial year and consequently the profitability has taken a big hit. As per the trend in the half year and further expected revenue, the company may end up incurring net loss.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **RATING SENSITIVITIES**

Going forward, the ability of the company to improve its scale of operations, profitability margins, overall credit risk profile and efficiently manage its working capital requirement would be the key rating sensitivities.

**Positive :** The rating outlook may be revised to positive if the company is able to significantly improve its profitability and also substantially improve its order book.

**Negative :** The rating may be downgraded if there is a delay in debt servicing, substantial decline in revenues and deterioration in the liquidity profile of the company.

### **LIQUIDITY POSITION (Stretched)**

Cash and cash equivalents are Rs. 1.78 Cr for FY 20. The Current ratio of the company is below the benchmark at 0.82 times and the gearing ratio of the company is comfortable at 0.98 times for FY 20. The debt protection metrics are also comfortable at ISCR at 3.58x and DSCR at 1.99x for FY 20. The current portion of Long Term debt for FY 20 is 2.54 Cr and Net Cash accruals (PAT+Dep.) for FY 21 is expected to be Rs. 1.64 Crs (Based on anticipated revenue of Rs. 85 Cr). The conversion cycle is also maintained at 44 days for Fy 20. Average credit utilization for the last 6 months as per the banker's feedback is 95 %.

Therefore, the overall liquidity position is Stretched.



## COMPANY PROFILE

Incorporated as a public limited company in 1992, Mohit Paper Mills Limited (MPML), manufactures printing and writing paper, newsprint, soda ash and tissues papers at its 3 manufacturing plants with an aggregated installed capacity of 42900 MTPA and captive plant of 7.5 MW. The company is listed on the Bombay Stock Exchange. MMPL sells its product under the brand - Sapphire Plus, Crystal Bright, and Sunshine with a distribution network in PAN India. The company is promoted by Mr. Sandeep Jain and his family.

## KEY FINANCIAL INDICATORS (Rs in crores)

Key Parameters	Units	2020	2019
Result Type		Audited	Audited
Operating Income	₹ Cr	131.99	155.99
EBITDA	₹ Cr	9.60	8.12
PAT	₹ Cr	3.20	2.05
Tangible Net Worth	₹ Cr	33.22	30.02
Total Debt/Tangible Net Worth	Times	0.98	1.12
Current Ratio	Times	0.82	0.78

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:** None

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :** NA



**RATING HISTORY FOR THE LAST 3 YEARS (INCLUDING WITHDRAWN/SUSPENDED)**

Instrument /Facility	Current Rating (2021)			Rating History		
	Type	Amount (₹ Crs)	Rating	2020	2019	2018
<b>Fund Based</b>	Long Term	34.39	<b>BWR BB+ (Stable) Downgraded</b>	-	<u>18/10/2019</u> <b>BWR BBB- (Stable) Reaffirmed</b>  <u>23/01/2019</u> <b>BWR BBB- (Stable) Reaffirmed</b>	-
<b>Non Fund Based</b>	Short Term	2.50	<b>BWR A4+ Downgraded</b>	-	<u>18/10/2019</u> <b>BWR A3 Reaffirmed</b>  <u>23/01/2019</u> <b>BWR A3 Reaffirmed</b>	-
<b>Total</b>		<b>36.89</b>	<b>INR Thirty Six Crores and Eighty Nine Lakhs Only.</b>			

\* BWR initially rated BWR BB (Stable)/A4 on 22 April 2019

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Approach to Financial Ratios**

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**M/s Mohit Paper Mills Limited**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	<b><u>Fund Based</u></b> Cash Credit Term Loan UGECL Covid- Term loan	21.00 7.33 4.20 1.86	-	34.39
2.	<b><u>Non Fund Based</u></b> LC (ILC/FLC) BG		2.25 0.25	2.50
<b>TOTAL</b>				<b>36.89</b>

**INR Thirty Six Crores and Eighty Nine lakhs Only**



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