



Press Release

Montage Enterprises Private Limited November 17, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	248.05*	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)
2	Bank Facilities- Short Term	110.00#	IVR A3 (IVR A Three)
	Total	358.05	

*Includes proposed amount of Rs. 35.00 crore

Includes proposed amount of Rs. 10.00 crore

Details of Facilities are in Annexure 1

Detailed Rationale

- The rating assigned to the bank facilities of Montage Enterprises Private Limited derives comfort from experienced promoter and management, established clientele and relationship, comfortable capital structure with satisfactory debt protection metrics and stable operating performance though moderation expected in FY20. The rating also considers vulnerability of profitability to adverse fluctuation in raw material prices and working capital intensive nature of operations with elongation in operating cycle.

Upward Factors

- Growth in scale of operations with improvement on profitability leading to improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure and improvement in debt protection metrics
- Improvement in the collection period leading to improvement in liquidity

Downward Factors

- Elongation in the operating cycle impacting the liquidity
- Moderation in the capital structure



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter and management**

The company is promoted by one Mr. Arvind Gupta, having a wide exposure in flexible packaging industry and is associated with this industry for last three decades. The promoters are supported by a team of professionals who help in day to day management.

- **Established clientele and relationship**

The company over the years, has been able to establish its presence in the traditional segment of the flexible packaging industry and caters to various small and medium base customers across the country mainly in the domestic market in the sectors of Processed Foods, Tea & Coffee, Pharmaceuticals, Mouth Freshener, Agro Products, and Personal & Homecare Industry etc. The clientele includes big names such as Haldiram, Bikaner Foods, Adani group, Ruchi Soya, Britannia etc.

- **Comfortable capital structure with satisfactory debt protection metrics**

The capital structure of the company stood comfortable with its overall gearing and TOL/ANW at 0.54x and 1.38x respectively as on March 31, 2020. During FY20, the company has acquired 100% equity of Utech Development Pvt Ltd from Uflex Ltd for Rs 152.50 crore by issuing 7.5% non-convertible preference shares which are redeemable in 10 instalments after two years and carry interest of 7.5%. The debt protection metrics are also satisfactory marked by the interest coverage ratio and total debt to GCA of 5.10x & 3.06 years respectively in FY20.

- **Stable operating performance though moderation expected in FY20**

The total operating income of the company increased by CAGR of ~9% over the past three fiscals ending FY19 with a y-o-y growth of ~7% mostly driven by repeat orders from existing customers and addition of few new customers. However, the scale of business moderated by 11% in FY20 due to impact of restrictions in imports resulting from Covid 19 as MEPL also imports raw material from China, Hong Kong, Singapore and in addition there was a major decline in Petroleum prices internationally, which brought down the price of one of the



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major raw material drastically. Since sale price is linked to the cost price of raw material, it resulted into the lower value the sales of the company during the FY 2019-20.

Key Rating Weaknesses

- **Vulnerability of profitability to adverse fluctuation in raw material prices**

As portion of the raw materials for the module manufacturing are imported, the profitability of the company remains exposed to fluctuations in raw material prices. However, the risk is mitigated to some extent given the relatively short cycle from order to delivery. Although, the profitability indicators remain exposed to volatility and linkage between price movement of raw material used in production of flexible material.

- **Working capital intensive nature of operations with elongation in operating cycle**

MEPL's operations are working-capital intensive driven by a change in the credit terms with traders through which the company supplies to the mouth freshener industry. Earlier, as per the industry practice, traders made payments in cash. However, post demonetisation, due to scarcity of cash, traders has stretched payment, thereby increasing the receivables of the Montage group. The average collection days remains high at 138 days whereas inventory days stood at 32 days for FY20. The operating cycle of the company remained moderate at around 72 days in FY20. The average working capital utilisation remained high at ~86=7% in the trailing 12 months ended August 2020. Going forward, effective management of working capital and early realisation of receivables is a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity ratios of the company remained healthy with the current ratio at 1.42x and the quick ratio at 1.21x as on March 31, 2020. The company has generated sufficient cash accrual of around Rs.144.78 Cr in FY20 as against repayment of Rs.46.23 Cr in FY20. The company is expected to generate steady cash accrual over the near medium term (Rs.



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179.14 crore in FY21 and Rs. 200.75 crore in FY22 respectively) against scheduled repayment obligation (Rs.51.88 crore in FY21 and Rs. 50.00 crore in FY22 respectively). Further, the company has adequate gearing headroom due to its comfortable capital structure. However, MEPL's utilization of the bank limits was high at around ~87% over the last 12 months ended on August 2020.

About the Company

Montage Enterprises Private Limited (MEPL), incorporated in 2002 is involved in manufacturing of flexible packaging materials such as polyester laminated rolls, laminated pouches, and laminated paper rolls and Pet Chips catering mainly to the pan masala and processed foods industry. It is headquartered in New Delhi and has its manufacturing units in Noida (Uttar Pradesh), Malanpur (Madhya Pradesh), Haridwar (Uttarakhand), and Jammu. MEPL is promoted by Mr. Arvind Gupta.

Financials (Standalone):

For the year ended* As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	2348.45	2096.02
EBITDA	206.35	220.99
PAT	75.73	72.75
Total Debt	345.15	442.36
Tangible Net worth*	709.22	746.79
EBITDA Margin (%)	8.79	10.54
PAT Margin (%)	3.21	3.47
Overall Gearing Ratio (x)^	0.41	0.54

*Unsecured loans from promoters subordinated to the bank are treated as quasi equity

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)	Rating History for the past 3 years



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		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	115.00*	IVR BBB-/Stable	-	-	-
2.	Term Loan	Long Term	133.05	IVR BBB-/Stable	-	-	-
3.	Letter of Credit	Short Term	110.00#	IVR A3			

*Includes proposed limit of Rs. 35.00 crore

Includes proposed limit of Rs. 10.00 crore

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	115.00*	IVR BBB- /Stable
Long Term Bank Facilities- Term Loan	-	-	April, 2026	133.05	IVR BBB- /Stable
Short Term Bank Facilities- Letter of Credit	-	-	-	110.00#	IVR A3

*Includes proposed limit of Rs. 35.00 crore

#Includes proposed limit of Rs. 10.00 crore