Press Release

Montage Enterprises Private Limited

April 04, 2022

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	217.88	IVR BB+/ Stable (IVR Double B Plus/Stable)	IVR BB+/ INC (IVR Double B Plus/Issuer Not cooperating)	Reaffirm and removed from Issuer Not Co-operating	Simple
2.	Short Term Bank Facilities#	100.00	IVR A4+ (IVR A Four Plus)	IVR A4+ (IVR A Four Plus/Issuer Not cooperating)	Reaffirm and removed from Issuer Not Co-operating	Simple
	Total	**317.88**				

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Montage Enterprises Private Limited continues to derive comfort from experienced promoters and management with established clientele and comfortable capital structure. However, these factors are offset by adverse impact of covid on profitability in FY21 and losses in FY22, deterioration in debt protection metrics, vulnerability of profitability to adverse fluctuation raw material prices and working capital intensive nature of operations with elongation in operating cycle.

Key Rating Sensitivities:

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 and deterioration in profitability indicators

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 well qualified professionals who help in day-to-day management and smooth function of business operations.

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.

Comfortable capital structure:

The company has satisfactory capital structure as evidenced by Tangible networth of Rs. 794.59 Cr and ATNW of Rs. 799.59 Cr. The TNW has increased from Rs. 705.99 Cr in FY20 to Rs. 794.59 Cr on account of ploughing back of profit and increase in fair value of equity instruments in Uflex Ltd. From Rs. 41.06 Cr to Rs. 112.16 Cr in FY21. The overall gearing ratio remain moderate at 0.56x, Long term debt to equity ratio of 0.47x as on March 31, 2021.

Key Rating Weaknesses

Adverse impact of covid on profitability in FY21 and losses in FY22

The total operating income of the company decreased by 1.71% in FY21 due to impact of covid-19 lockdown and other restrictions resulting from Covid 19 pandemic. The profitability was impact as evidenced by decline in EBITDA to Rs. 143.66 Cr in FY21 from Rs. 220.99 Cr in FY20 and decline in PAT to Rs. 15.42 Cr in FY21 from Rs. 72.75 Cr. in FY20. The company is also projecting a loss of Rs. 28.30 Cr in FY22. The company is engaged in manufacturing and sale of flexible packaging materials and supplies to customers on PAN India basis. Amongst various segments, the company's business largely comprises mouth freshener business for high value-added packaging materials, which are badly affected during COVID 19. However, the company tried to mitigate the adverse impact arising from mouth freshener segment by supplying the materials in other segments, but margins were comparatively low. Further, due to COVID 19 impact the logistic arrangement is affected, and freight cost has drastically increased which impacted the profitability of the company.

Decline in debt protection metrics of the company

Company's coverage metrics have deteriorated due to adverse impact on profitability of the company and stood moderate with DSCR at 1.37x and Interest Coverage Ratio at 3.10 as on March 31, 2021. The debt protection metrics is projected to be stressed with DSCR of 0.82x and Interest coverage of 1.68x in FY22 due to huge losses. As discussed with management, the promoters will bring in additional fund in the form of unsecured loans if required to make the repayments in the stressed period. The company don't have any irregularities in terms of repayments as on date.

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 demonetization and after covid pandemic, traders has stretched payment, thereby increasing the receivables of the Montage group. The average collection days remains high at 152 days whereas inventory days stood at 32 days for FY21. The operating cycle of the company remained moderate at around 84 days in FY21. The average working capital utilisation remained high at ~89% in the trailing 12 months ended Nov 2021. 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 1.47x and the quick ratio at 1.26x as on March 31, 2021. The profitability of the company was impacted in FY21, however, the company has generated sufficient cash accrual of around Rs. 88.10 Cr in FY21 as against repayment of Rs. 51.88 Cr in FY20. The company is expected to incur loss in FY22 which will affect their debt repayment capability. As discussed with management, the promoters will bring in funds in the form of unsecured loan to meet the repayment obligations, if required. Further, the company has adequate gearing headroom due to its comfortable capital structure with an overall gearing ratio of 0.56x in FY21. MEPL's utilization of the bank limits was high at around ~89% over the last 12 months ended on Nov 2021.

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 Basis):

(Rs. crore)

For the year ended*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	2096.02	2059.99
EBITDA	220.99	143.66
PAT	72.75	15.42
Total Debt	433.01	447.48
Tangible Net worth	705.99	794.59
EBITDA Margin (%)	10.54	6.97
PAT Margin (%)	3.47	0.74
Overall Gearing Ratio (x)	0.61	0.56

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has migrated the rating of Montage Enterprises Private Limited into "Issuer Not Cooperating" category on December 24, due to non-availability of adequate information to carry review process.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-2022)			Rating History for the past 3 years			
		Type	Amount (Rs. Crore)	Rating (April 01, 2022)	Date(s) & Rating(s) assigned in 2021-22 Feb 15, 2022)	Date(s) & Rating(s) assigned in 2020-21 (Nov 17, 2020)	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19

1.	Fund Based Bank Facilities- Term Loan	Long Term	137.88	IVR BB+/ Stable	IVR BB+/ INC	IVR BBB- /Stable		-
2.	Fund Based Bank Facilities- Cash credit	Long Term	80.00	IVR BB+/ Stable	IVR BB+/ INC	IVR BBB- /Stable		
3.	Non-Fund Based Bank Facilities- Letter of credit	Short Term	100.00	IVR A4+	IVR A4+ (INC)	IVR A3		-

*PNB Letter of Credit limit amounting to Rs. 92.00 Cr. includes sub limits of bank guarantee Rs. 18.00 Cr.

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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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- Term Loan	-	-	Multiple	137.88	IVR BB+ Stable
Long Term Bank Facilities- Cash Credit	-	-	-	80.00	IVR BB+ Stable
Short Term Bank facilities- Letter of Credit	-	-	-	100.00	IVR A4+

Annexure 2: List of companies considered for consolidated analysis: Not applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-montage-apr22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.