Montage Enterprises Private Limited

August 29, 2024

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	126.97	IVR B+/Stable (IVR Single B Plus with Stable Outlook)	IVR BB-/Stable (IVR Double B minus with Stable Outlook)	Downgraded	Simple
2.	Short Term Bank Facilities	100.00	IVR A4 (IVR A Four)	IVR A4 (IVR A Four)	Reaffirmed	Simple
	Total	**226.97**	**Rupees Two Hundred Twenty Six Crore and Ninety Seven Lakhs Only**			

Details of Facilities are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has downgraded/reaffirmed the long term rating of IVR B+ with a Stable outlook and short term rating of IVR A4 for the bank loan facilities of Montage Enterprises Private Limited (MEPL).

The rating continues to draw comfort from its experienced promoter and management, established clientele and relationship, moderate capital structure. However, these rating strengths are partially offset by decline in scale of operations and negative profitability, weak debt protection metrics, vulnerability of profitability to raw material price fluctuations.

The ‘stable’ outlook on the rating reflects the sustained demand for the products which is expected to maintain a stable revenue stream.

IVR has principally relied on the audited financial results of MEPL’s up to 31 March 2023 and unaudited financial results for FY2024 (refers to period from 1st April 2023 to 31st March 2024) and projected financials for FY25, FY26 and FY27, and publicly available information/ clarifications provided by the company’s management.

Upward factors

- Improvement in profitability margins 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

- Decline in scale of operations and profitability margins.
- Elongation in the operating cycle impacting the liquidity.
- Moderation in the capital structure and debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter and management:**

The company is led by Mr. Arvind Gupta, who has over three decades of extensive experience in the flexible packaging industry. Due to ongoing health issues, Mr. Gupta has resigned from his directorship. Nevertheless, there has been no change in the company's ownership structure, and Mr. Gupta remains the promoter with his shareholding unchanged. Mr. Prashant Kumar Singh and Mr. Abhijit Giri have been appointed as Professional Directors. The company’s daily operations are managed by a board of Professional Directors, supported by a team of skilled technical and managerial staff. The promoters are further supported by a team of highly qualified professionals who ensure the smooth functioning of business operations.

- **Established clientele and relationship:**

Over the years, the company has successfully established a strong presence in the traditional segment of the flexible packaging industry. It serves a diverse range of small and medium-sized customers nationwide, primarily within the domestic market. The company’s clientele spans several sectors, including Processed Foods, Tea & Coffee, Pharmaceuticals, Mouth Fresheners, Agro Products, and the Personal & Homecare Industry.

- **Moderate capital structure:**

The company has moderate capital structure as evidenced by Tangible net worth of Rs.432.73 crore and ATNW of Rs.218.99 crore. The overall gearing ratio remain moderate at 1.94 x and long-term debt to equity ratio of 1.59 x as on March 31, 2024 (Provisional), as against 1.43 7x and 1.19x as on March 31, 2023, respectively.

Key Rating Weaknesses

- **Decline in scale of operations and profitability margins:**
The company's total operating income (TOI) has decreased from Rs.2362.02 crore in FY2023 to Rs.2054.06 crore in FY2024 (Provisional). This decline is attributed to the company's products being sensitive to crude oil price fluctuations, which affect both sales prices and raw material costs. EBITDA and PAT have been negative for the past three years due to high expense levels. Although the company has sought to offset these losses by expanding into the FMCG segment with its flexible packaging products, the resulting profit margins have remained in negative.

- **Weak debt protection metrics:**
The company's coverage metrics have deteriorated due to a negative impact on profitability, falling below unity as of March 31, 2024 (provisional). According to discussions with management, the promoters will bring additional funds in the form of unsecured loans if necessary to support repayments during this challenging period.

- **Vulnerability of Profitability to Raw Material Price Fluctuations:**
A portion of the raw materials used in module manufacturing is imported, which exposes the company's profitability to fluctuations in raw material prices. While the relatively short cycle from order to delivery provides some mitigation of this risk, profitability indicators remain susceptible to volatility due to the price movements of raw materials used in the production of flexible materials.

Analytical Approach: For arriving at the ratings, IVR has analysed MEPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Stretched
The company's liquidity stood stretched with negative gross cash accruals in FY2024 (Provisional). However, the company's cashflows are supported by promoter's fund. The company is expecting gross cash accruals (GCA) in the range of Rs. -17.54 crore to Rs.47.86 crore as against the repayment obligations in the range of Rs.26.69 crore to Rs.17.91 crore for the period of FY2025-27. The company has a current ratio of 1.15x as of March 31, 2024 (Provisional).

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):

(Rs. crore)

For the year ended*/As on	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	2362.02	2054.06
EBITDA	-42.49	-37.93
PAT	-116.61	-102.57
Total Debt	475.88	424.83
Tangible Net worth	547.48	432.73
EBITDA Margin (%)	-1.80	-1.85
PAT Margin (%)	-4.92	-4.97
Overall Gearing Ratio (x)	1.43	1.94
Interest Coverage Ratio (x)	-0.90	-0.80

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: : It is under ISSUER NOT COOPERATING category with CRISIL ratings via press release date April 12, 2024, due to nonavailability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-24** (June 30, 2023)	**Date(s) & Rating(s) assigned in 2022-23** (April 04, 2022)	**Date(s) & Rating(s) assigned in 2022-23** (February 15, 2022)
1.	Fund Based	Long Term	126.97	IVR B+/Stable	IVR BB-/Stable	IVR BB+/Stable	IVR BB+/Issuer Not Cooperating
2.	Non - Fund Based	Short Term	100.00	IVR A4	IVR A4	IVR A4+	IVR A4+/ Issuer Not Cooperating

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook

				(Rs. Crore)	
Term Loan	-	-	June 2028	23.28	IVR B+/Stable
Term Loan	-	-	January 2025	2.89	IVR B+/Stable
GECL	-	-	May 2028	6.40	IVR B+/Stable
GECL	-	-	January 2026	14.40	IVR B+/Stable
Cash Credit	-	-	-	80.00	IVR B+/Stable
Bank Guarantee	-	-	-	100.00	IVR A4

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Montage-Enterprises-aug24.pdf

Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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 Complexity Level of Rated Instruments/Facilities.