Press Release

Montage Enterprises Private Limited

June 30, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facility	163.18 (reduced from Rs.217.88 crore)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	IVR BB-/ Stable (IVR Double B Minus with Stable Outlook)	Downgraded	Simple
Short Term Bank Facility	100.00	IVR A4+ (IVR Four Plus)	IVR A4 (IVR A Four)	Downgraded	Simple
Total	**263.18**	**Rupees Two Hundred Sixty Three Crore and Eighteen Lakhs Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuations and Ratings Private Limited (IVR) has downgraded long-term rating to IVR BB- with a Stable Outlook and short term rating to IVR A4 for the bank loan facilities of Montage Enterprises Private Limited (MEPL).

The rating has been downgraded due to losses, stretched liquidity and debt protection metrics (interest coverage ratio and debt service coverage ratio) are below unity in FY22 (audited). There is uncertainty due to deterioration in the financial risk prolife of the company.

The rating revised to the above-mentioned bank facilities of Montage Enterprises Private Limited (MEPL) continues to draw comfort from experienced promoters and management. The rating also factors established clientele and relationship and satisfactory capital structure. However, these strengths are, partially offset by weak profitability, stressed debt protection metrics, vulnerability of profitability to adverse fluctuation in raw material prices and working capital intensive nature of operations with elongation in operating cycle.

IVR has principally relied on the standalone audited financial results of MEPL upto 31 March 2022 and projected financials for FY23, FY24 and FY25 and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- 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.

Satisfactory capital structure

The company has satisfactory capital structure as evidenced by Tangible net worth of Rs.769.79 crore and ATNW of Rs. 522.04 crore. The overall gearing ratio remain moderate at 0.62x and long-term debt to equity ratio of 0.52x as on March 31, 2022 as against 0.56x and 0.47x as on March 31, 2021 respectively.

Key Rating Weaknesses

Weak Profitability

The total operating income (TOI) of the company has shown growth of ~15% i.e Rs.2367.28 crore. However, the profitability was impact as evidenced by decline in EBITDA to Rs. 10.11 crore in FY22 from Rs. 143.66 crore in FY21 and reported loss during FY22 of Rs. (78.54) crore. Due to adverse impact on mouth freshener business which comprises major portion of company's business, impact on logistic arrangements and increase in freight cost. The company tried to mitigate the loss by entering into FMCG segment with their flexible packaging products, however, the margins remain comparatively low.

Stressed debt protection metrics

The company's coverage metrics have deteriorated due to adverse impact on profitability of the company and stood below unity with Interest Service Coverage Ratio at 0.23x as on March 31, 2022. 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 145 days and the collection days are partially offset by high creditor period of 100 days in FY22. The operating cycle of the company remained moderate at around 76 days in FY22. The average working capital utilisation remained high at ~92% in the trailing 12 months ended Feb 2023. Going forward, effective management of working capital and early realisation of receivables is a key rating monitorable.

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

Liquidity – Stretched

The company's liquidity stood stretched with negative gross cash accruals in FY22. However, the company's cashflows are supported by promoters fund. The average working capital utilisation remained high at ~92% in the trailing 12 months ended Feb 2023. The company has a current ratio of 1.36x as of March 31, 2022. The company had unencumbered cash and bank balance of Rs.18.46 crore as on March 31, 2022.

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*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	2059.99	2367.28
EBITDA	143.66	10.11
PAT	15.42	-78.54
Total Debt	447.48	478.92
Tangible Net worth	794.59	769.79
EBITDA Margin (%)	6.97	0.43
PAT Margin (%)	0.74	-3.30
Overall Gearing Ratio (x)	0.96	0.92

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL has continued the rating of Montage Enterprises Private Limited under "Issuer Not Cooperating" category on February 24, 2023, due to non-availability of adequate information to carry review process.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23** (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)
1.	Cash Credit	Long Term	80.00	IVR BB-/Stable	IVR BB+/ Stable	IVR BB+/ INC*	IVR BBB-/ Stable
2.	Term Loan/ GECL	Long Term	83.18 (reduced from 137.88)	IVR BB-/Stable	IVR BB+/ Stable	IVR BB+/ INC*	IVR BBB-/ Stable
3.	Letter of Credit	Short Term	8.00	IVR A4	IVR A4+	IVR A4+/ INC*	IVR A3
4.	Bank Guarantee	Short Term	92.00	IVR A4	IVR A4+	IVR A4+/ INC*	IVR A3

*Issuer Not cooperating

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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.

For more information visit www.infomerics.com.

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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 Fund Based Facilities – Cash Credit	-	-	-	80.00	IVR BB-/ Stable
Long Term Fund Based Facilities – Term Loan/ GECL	-	-	-	83.18	IVR BB-/ Stable
Short Term Fund Based Facilities – Letter of Credit	-	-	-	8.00	IVR A4

Short Term Fund Based Facilities – Bank Guarantee	-	-	-	92.00	IVR A4

Annexure 2: List of companies considered for consolidated analysis: None

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Montage-Enterprises-jun23.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 Complexity Level of Rated Instruments/Facilities.