

June 21, 2024

## Lemica Paper Mill: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	6.50	6.50	[ICRA]BB (Stable); reaffirmed
Fund-based – Working capital term loan	0.80	0.80	[ICRA]BB (Stable); reaffirmed
Non-fund based - Others	1.45	1.45	[ICRA]A4; reaffirmed
Non-fund based – Interchangeable	(3.25)	(3.25)	[ICRA]A4; reaffirmed
Unallocated limits	0.25	0.25	[ICRA]A4; reaffirmed
<b>Total</b>	<b>9.00</b>	<b>9.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

To arrive at the ratings, ICRA has considered the consolidated profiles of Lemica Paper Mill (LPM) and Lemina Paper Industries (LPI) (referred to as the Lemica Group or Group) on account of the common management, business, and financial linkages between these entities, as well as cross-default linkages and extension of cross corporate guarantees.

The reaffirmation of the ratings considers the steady growth in top line, and expectations of the same, with range-bound debt levels leading to satisfactory debt coverage indicators. The Group reported ~14% growth in revenue (on provisional basis) on account of increase in volumes to the extent of ~39% in LPM in FY2024. The ratings also continue to factor in the vast experience of Lemica Group's partners in the paper industry and the firm's proximity to raw material sources, owing to its presence in Morbi (Gujarat).

The ratings, however, continue to be constrained by the Group's average financial risk profile, marked by its small scale of operations, moderately leveraged capital structure and high TOL/TNW, given a low net worth base. The ratings also factor in the stiff competition in the paper industry and vulnerability of the Group's profitability to the volatility in raw material and fuel prices. ICRA also notes that the consolidated profile operates as a partnership firm and remains exposed to significant withdrawals impacting its net worth.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters in the paper industry and presence in different grades of packaging paper, which provides stability to revenues.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of partners in the paper industry** – LPM, established in 2014, was involved in manufacturing absorbent Kraft paper, but has now diversified into manufacturing white paper as well. LPI, a greenfield project, was incorporated in FY2022 for manufacturing coaster paper, wrapping paper and Kraft paper. Mr. Dilip Panchotiya, Mr. Dhiren Maksana and Mr. Vinod Panchotiya are the key promoters in both the entities with more than a decade experience in the paper industry.

**Locational advantage** – The Lemica Group benefits in terms of lower transportation costs and improved lead time due to its proximity to raw material sources, including imports from the nearby ports. The Group’s manufacturing units are also located at Morbi (Gujarat), which is in proximity to customers.

### Credit challenges

**Average financial risk profile** – The Group’s financial risk profile is average, marked by its small scale of operations as reflected in the consolidated top line of Rs. 73.86 crore in FY2024 (provisional), with a gearing of 1.73 times and TOL/TNW of 2.60 times as on March 31, 2024. The TOL/TNW remains high owing to increased reliance on creditor funding and a low net worth base.

**Susceptibility of profitability to raw material prices** – Wastepaper (the key raw material) accounts for 75-80% of the firm’s total costs, followed by power and fuel costs at 8-12%. Hence, the profitability of the firm remains exposed to the volatility in wastepaper and coal prices, given its limited power to pass on the increased costs to its end-customers.

**High working capital intensity** – The Group’s receivable period remained high at 117 days in FY2024. Accordingly, the working capital intensity was high at ~35% (NWC/OI) as on March 31, 2024. The high working capital intensity is largely attributed to the higher inventory holding levels and receivables position.

**Inherent risks as a partnership firm** – Given the Group’s constitution as a partnership firm, it is exposed to discrete risks including the possibility of large capital withdrawals by the partners, impacting the liquidity and net worth base.

### Liquidity position: Stretched

LPM’s liquidity position remains stretched, given its minimal free cash balance and high working capital requirements, which stood at an average of ~94% over 12 months ending in March 2024. The cash accruals are expected to remain tightly matched against the debt repayment over the medium term. The presence of unsecured loans, coupled with history of regular infusion, as and when needed by the promoters, and buffer available in the drawing power against the actual utilisation levels, however, provide some comfort.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the LPM’s rating if there is substantial growth in revenues and improvement in the operating margins which results in improvement in credit metrics and liquidity position on a sustained basis.

**Negative factors** – Pressure on the Group’s ratings could arise if a substantial decline in revenues and operating margins results in lower cash flows, on a sustained basis. Any large debt-funded capex or stretch in the working capital cycle leading to a deterioration in the capital structure and liquidity, could also trigger a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated profiles of LPM and LPI, given their common management as well as cross guarantees for bank debts and cross default linkages.

## About the company

The Lemica Group is primarily involved in the paper manufacturing industry and consists of the partnership firms, Lemica Paper Mill and Lemina Paper Industries. LPM, established in 2014, manufactures absorbent Kraft paper that finds application in the laminate industry. In FY2023, the entity transitioned into manufacturing white paper. The firm, located at Morbi, Gujarat, has an operational manufacturing capacity of 24,000 MTPA which is fungible for both Kraft paper and white paper. LPI, a greenfield project, was established in 2021 for manufacturing coaster paper, wrapping paper and Kraft paper. The key promoters of both entities include Mr. Dilip Panchotiya, Mr. Dhiren Maksana and Mr. Vinod Panchotiya, who have more than a decade experience in the paper industry.

## Key financial indicators

Lemica Group (Consolidated)	FY2022	FY2023	FY2024*
Operating income	60.38	64.56	73.86
PAT	0.63	0.68	1.71
OPBDIT/OI	6.55%	9.26%	9.91%
PAT/OI	1.05%	1.05%	2.32%
Total outside liabilities/Tangible net worth (times)	2.90	3.06	2.60
Total debt/OPBDIT (times)	6.48	4.73	4.19
Interest coverage (times)	2.98	3.07	3.18

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore; \*provisional

Lemica Paper Mill	FY2022	FY2023	FY2024*
Operating income	58.08	34.40	46.88
PAT	2.14	0.50	2.15
OPBDIT/OI	6.61%	6.50%	9.62%
PAT/OI	3.68%	1.44%	4.58%
Total outside liabilities/Tangible net worth (times)	2.74	2.74	2.10
Total debt/OPBDIT (times)	2.90	6.30	3.48
Interest coverage (times)	4.19	2.57	3.27

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; \*provisional

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jun 21, 2024	Jun 26, 2023	Jun 02, 2022	May 06, 2021
1 Cash credit	Long-term	6.50	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Term Loan	Long term	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3 Working Capital Term Loan	Long term	0.80	0.80	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
4 Non-fund based	Short term	1.45	--	[ICRA]A4	[ICRA]A4	-	[ICRA]A4
5 Non-fund Based – Interchangeable	Short term	(3.25)	--	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
6 Unallocated	Short term	0.25	--	[ICRA]A4	[ICRA]A4	[ICRA]A4	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Cash credit	Simple
Fund Based - Working capital term loan	Very Simple
Non fund based – Others	Very Simple
Non fund based – Interchangeable	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	6.50	[ICRA]BB (Stable)
-	Working Capital Term Loan	FY2021	-	FY2026	0.80	[ICRA]BB (Stable)
-	Non-fund Based – Others	-	-	-	1.45	[ICRA]A4
-	Interchangeable	-	-	-	(3.25)	[ICRA]A4
-	Unallocated Limits	-	-	-	0.25	[ICRA]A4

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Consolidation Approach
Lemica Paper Mill	Full Consolidation
Lemina Paper Industries	Full Consolidation

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