

Press Release

Deevya Shakti Paper Mills Pvt. Ltd.

February 03, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Long Term Debt- Term Loan	2.36* (reduced from Rs. 5.00 crore)	IVR A-/ Stable Outlook (IVR Single A Minus with Stable Outlook)	Re-affirmed
2	Long Term Facility – Fund Based	Rs. 36.00 crore	IVR A-/ Stable Outlook (IVR Single A Minus with Stable Outlook)	Re-affirmed
3	Short Term Facility – Non Fund Based	Rs. 6.22 crore	IVR A2+ (A Two Plus)	Re-affirmed

**outstanding as on 31st December, 2019*

Details of Facilities are in Annexure 1

Detailed Rationale

The affirmation of ratings assigned to the bank facilities of Deevya Shakti Paper Mills Pvt. Ltd. (DSPM) derives comfort from its experienced promoters, established distribution network, latest production technology, healthy profitability margins, comfortable capital structure and debt protection metrics and comfortable liquidity. However, the rating strengths are partially offset by modest scale of operations, susceptibility of margins to volatility in prices of raw material, low entry barriers with high competition from organized and unorganized players and risk of forex fluctuation.

Key Rating Sensitivities

Upward revision factors:

- Substantial & sustained improvement in revenue while maintaining the profitability & debt protection metrics

Downward revision factors:

- Any decline in revenue & Profitability leading to sustained deterioration in debt protection metrics

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters:

Deevya Shakti Paper Mills Pvt. Ltd (DSPM) was promoted by Mr. Mohanlal Agarwal and his family, in 2009. Mr. Mohanlal Agrawal has been in the paper industry for over three decades. Mr. Ravindra, and Mr. Sushil two of the directors are second generation entrepreneurs and Mr.Gaurav Agarwal, and Mr.Keshav Agarwal are third generation entrepreneurs who actively participate in managing the operations of the company. The family also has interests in manufacturing of plywood, laminates, Kraft paper and MDF board.

▪ **Established distribution network**

The marketing operation of the company is carried out through dealer network both in India as well as abroad. DSPM has a network of around 30 dealers. The company exports duplex boards to UAE, Bangladesh, Nepal, Saudi Arabia, Nigeria, Kenya, Sri Lanka, Philippines, Vietnam, Qatar etc. thorough its dealer network.

▪ **Latest production technology**

DSPM's paper board plant is equipped with the latest 4+1 multi-wire technology in comparison with other mills which are mostly using 1-3 layers or conventional Formers/Moulds. DSPM has state of the art imported machinery and the process is fully computerized and equipped with advanced DCS and QCS systems. The stock preparation process is equipped with De-inking and dispersion system. The plant has a capacity of 300 tons/day with 4+1 layer wire part and a GSM Range of 180-450 gsm. DSPM manufactures tailor-made products for its customers depending upon their requirements

▪ **Healthy profitability margins**

The EBITDA margin has been in the range of 9%-10% and PAT margins have been in the range of 4%-5% during the last three years ended FY19.

▪ **Comfortable capital structure and debt protection metrics**

Lower total debt coupled with accretion of profits over the years has helped the company to achieve very low overall gearing of 0.24 times as on March 31, 2019. Long-term debt to GCA and interest coverage at 0.40x and 9.05x respectively are comfortable in FY19.

- **Comfortable liquidity**

The working capital cycle is comfortable at less than 2 months. Effective working capital management coupled with healthy internal accruals has helped the company to contain the working capital utilization at around 40% during the last twelve months ended December 2019. Other liquidity parameters have also generally been comfortable.

Key Rating Weaknesses

- **Modest scale of operation**

DSPM reported healthy growth in Total Operating Income by 4% to Rs.275 crore in FY18, however the scale of operations continues to be shallow. Going forward, the company's ability to maintain business growth amidst competition needs to be seen.

- **Susceptibility of margins to volatility in prices of raw material:**

The operations of the company are raw material intensive as reflected by 60%-70% contribution to total cost of sales. The prices of the waste paper in the domestic market and international market have witnessed a volatile trend over the years and therefore, the profitability of the industry players is susceptible to such volatility.

- **Low entry barriers with high competition from organized and unorganized players**

The paper and packaging industry is intensely competitive with numerous unorganized players due to low entry barriers and limited product differentiation, leading to limited pricing power. The highly fragmented and competitive nature of the industry may impact the profitability of the players.

▪ Risk of Forex fluctuation

During FY19, exports stood at ~23% of total sales and imports stood at 30% of total purchases. As the company has imports as well as exports majorly in US \$ spread throughout the year, it provides a natural hedge for the company against the foreign currency risk to great extent. The company does not resort to any hedging. This does not appear to be a major concern for the company, given the trend of forex fluctuation generally. The open position of the company stood at Rs.5.77 crore (receivables) as on December 31, 2019.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Strong

The current ratio and quick ratio remained comfortable at 1.97x and 1.19x respectively as on March 31, 2019. The company cash flow from operation also remains adequate. The liquidity of the company expected to remain Strong in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. It had a cash and cash equivalent of Rs.8.90 crore as on 31 March 2019.

About the Company

Deevya Shakti Paper Mills Pvt. Ltd (DSPM) was promoted by Mr. Mohanlal Agarwal and his family, in 2009. Mr. Mohanlal Agrawal has been in the paper industry for over three decades. Mr. Ravindra, and Mr. Sushil two of the directors are second generation entrepreneurs and Mr.Gaurav Agarwal, and Mr.Keshav Agarwal are third generation entrepreneurs who actively participate in managing the operations of the company. The day to day affairs of the entity are looked after by Mr. Sushil Agarwal, who is a commerce graduate and has an experience of around 15 years in the industry. The main product manufactured by DSPM is Coated White / Grey back Paper Board. The said product is manufactured in a wide GSM range of 180 gsm (gram per square meter) to

450 gsm. The products manufactured by the company find application in FMCG and Pharmaceuticals industries. The major raw material for the company is waste paper. The company has established a network of 30 dealers, with over two decades of experience in the industry. The company is also exporting duplex boards to UAE, Bangladesh, Nepal, Saudi Arabia, Nigeria, Kenya, Sri Lanka, Philippines, Vietnam, and Qatar etc. The company is focusing on exports where the realizations are higher. The company is a recognized 1 Star Export house and exports contribute ~ 30% of its total revenues.

Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	276.10	287.50
EBITDA	24.6	25.6
PAT	11.8	12.0
Total Debt	23.8	29.5
Tangible Net-worth	109.7	121.7
EBITDA Margin (%)	8.92	8.89
PAT Margin (%)	4.23	4.14
Overall Gearing Ratio (x)	0.22	0.24

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. cr.)	Rating	Date(s) & Rating(s) assigned in 18-19	Date(s) & Rating(s) assigned in 17-18	Date(s) & Rating(s) assigned in 16-17
1.	Long Term Facility	Long Term	36.00	IVR A-/Stable	IVR A-/Stable	--	--

	– Fund Based Limits			Outlook	Outlook (Dated 11.02.2019)		
2.	Long Term – Non Fund Based	Long Term	2.36*	IVR A-/Stable Outlook	IVR A-/Stable Outlook (Dated 11.02.2019)	--	--
3.	Long Term	Short Term	6.22	IVR A2+	IVR A2+ (Dated 11.02.2019)	--	--

**outstanding as on 31st December, 2019*

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:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Facility – Fund Based – Term Loan	NA	NA	June 2020	2.36*	IVR A-/ Stable Outlook
Long Term Facility – Fund Based	NA	NA	Revolving	36.00	IVR A-/Stable Outlook
Short Term Facility – Non Fund Based	NA	NA	NA	6.22	IVR A2+

**outstanding as on 31st December, 2019*