Deevyashakti India Private Limited (DIPL)

(Formerly known as Deevya Shakti Paper Mills Private Limited)

Oct 17, 2023

Ratings

Type of Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicators
Long Term Bank Facilities	57.00	IVR A-/ Negative (IVR Single A Minus with Negative Outlook)	Rating reaffirmed and Outlook revised	Simple
Short Term Bank Facilities	3.42	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	60.42 **(Rupees Sixty crore and Forty-Two lakh only)**			

Details of facilities are in Annexure 1

Detailed Rationale

The affirmation of the ratings assigned to bank facilities of Deevyashakti India Private Limited (DIPL) continues to derive strength from its experienced promoters, established distribution network, comfortable capital structure and debt protection metrics. The rating also factors in the planned capex and expected operational synergies & cost benefit arriving out of it.

The ratings, however, remain constrained by its modest scale of operations, volatile profitability margins, susceptibility of margins to volatility in prices of raw material, low entry barriers in the industry with high competition and susceptibility of margins to volatility in foreign exchange rates. Revision in the rating outlook reflects non achievement of financial performance as projected in FY23 along with expected muted financial performance in FY24.

Key Rating Sensitivities

Upward Rating Factor

- Sustained improvement in total operating income with sustained improvement in profitability metrics with EBITDA margin above 12%
- Sustained improvement in the operating cycle below 30 days leading to further improvement in liquidity.

Downward Rating Factor

- Any decline in operating income and/or profitability leading to deterioration in overall financial risk profile of the company.
- Any cost & time overrun in planned capex leading to TOL/TNW deteriorating below 1x on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

Deevyashakti India Private Limited (Formerly known as Deevya Shakti Paper Mills Private Limited) was promoted by (late) Mr. Mohanlal Agarwal and his family, since 2009. Mr. Mohanlal Agrawal had been in the paper industry for over three decades. Mr. Ravindra, Mr. Sushil and Mr. Anil are the second-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. DIPL 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.

Comfortable capital structure and debt protection metrics

Overall Gearing ratio stood comfortable at 0.03x as on March 31, 2023 (0.02x as on March 31, 2022) due to negligible total debt against the tangible networth of the company. Tangible Net worth of the company stood at Rs.197.22 crore as on March 31, 2023 led by accretion of profits to reserves. DIPL's total debt stood at Rs. 6.35 crore as on March 31, 2023. TOL/TNW also stood comfortable at 0.22x as on March 31, 2023 (0.26x as on March 31, 2022). The interest coverage ratio also stood comfortable at 14.52x in FY23 due to low overall interest cost led by lower utilization of debt. Capital structure expected to remain comfortable in the projected period also.

The planned capex and expected operational synergies & cost benefits

The company is planning for the capacity expansion from 90,000 MTPA to 130,000 MTPA in a phased manner by Feb 2025 along with setting up a cogeneration power plant of 6-7 MW and a deinking plant. The total cost of the capex will be around Rs.120.00 crore, planned to be funded by Rs.80.00 crore of term loan & balance from internal accruals. The capex will provide the economies of scale along with cost benefit from cheaper power & raw material from deinking plant.

Key Rating Weaknesses

Moderate scale of operation

DIPL's total operating income (TOI) declined by 4.56% in FY23 marked by TOI of Rs.443.86 crore in FY23 (FY22: Rs.468.61 crore) majorly due to subdued export sales. Infomerics expect the TOI of the company to remain subdued in FY24 due to planned intermittent closure of the manufacturing facility on account of capex. The expected decline in the revenue will also impact the profitability parameters in FY24. In H1FY24, TOI stands at Rs 189.37 Cr (H1FY23: Rs. 254.96 crore)

Moderate profitability margins

EBITDA margin decreased to 4.55% in FY23 from 10.50% in FY22 due to increase in cost of production led by increase in raw material costs. The demand which peaked in FY22 post Covid was not maintained in FY23. Consequently, PAT margin decreased to 3.03% in FY23 from 7.15% in FY22. Gross Cash Accruals (GCA) of the company stood at Rs.18.96 crore in FY23.

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 wastepaper in the domestic and international markets 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 unorganised 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.

Susceptibility of margins to volatility in foreign exchange rates

Exports formed around 20% of its FY23 sales while imports formed around 38% of the purchases in FY23. Net gain on transactions in foreign currency stood at Rs.3.05 crore in FY23 whereas Net loss on transaction in foreign currency stood at Rs.0.36 crore in FY22. DIPL does not generally hedge its forex exposure. DIPL has taken Credit Exposure Limit of Rs.0.52 crore from State Bank of India. However, the same has not been utilized. The unhedged forex exposure stood at Rs.15.67 crore as on March 31, 2023.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for manufacturing companies]

[Financial Ratios and Interpretation (Non- Financial Sector)]

[Criteria of assigning Rating Outlook]

[Default Recognition Policy]

Liquidity – Strong

DIPL's liquidity is strong with current ratio of 3.77x as on March 31, 2023. Gross Cash Accruals (GCA) of the company stood at Rs.18.96 crore in FY23. DIPL has no long-term debt repayment obligations as on March 31, 2023. The average limit utilisation of the fund-based facilities of DIPL for the last 12 months ended Aug 2023 stood low at 22.41%. Operating cycle stood comfortable at 55 days in FY23. Average creditors day stood at 11 days in FY23 while average collection period stood at 31 days in FY23. As on March 31st, 2023 the company has Rs 5.00 Cr of investment in Mutual Fund, Fixed Deposit of Rs 3.09 Cr, Cash and Bank balance of Rs.0.89 Cr which provide additional cushion to the liquidity.

About the Company

Earlier known as Deevya Shakti Paper Mills Private Limited, DIPL was promoted by Mr. Mohanlal Agarwal and his family in 2009. The name of the company was changed w.e.f. August 3, 2021. The company mainly produces coated and uncoated duplex boards. The main product manufactured by DIPL is coated white / grey back paper board. The said products are manufactured in a wide GSM (gram per square metre) range of 180 gsm to 450 gsm. The products manufactured by DIPL find application in industries like FMCG and pharmaceutical. The company is a recognized 1 Star Export house.

The company has demerged its real estate business to Deevyashakti Realty Private Limited as per NCLT approval order dated June 12th, 2023, with the appointed date of April 01st, 2023.

Financials (Standalone):

(Rs. crore)

For the year ended/As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	468.61	443.86
EBITDA	49.21	20.18
PAT	33.70	13.63
Total debt	4.23	6.35
Tangible Net worth	184.26	197.22
Ratios		
EBITDA Margin (%)	10.50	4.55
PAT Margin (%)	7.15	3.03
Overall Gearing Ratio (x)	0.02	0.03

**Classification as per Infomerics' Standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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) and Rating (s) assigned in 2022-23 (PR dated July 18, 2022)	Date(s) and Rating (s) assigned in 2021-22 (PR dated April 19, 2021)	Date(s) and Rating (s) assigned in 2020-21
1.	Cash Credit	Long Term	57.00	IVR A-/ Negative	IVR A-/ Positive	IVR A-/ Stable	-
2.	Long Term Fund Based – Proposed Limit	Long Term	-	-	-	IVR A-/ Stable	-
3.	Corporate Credit Card Limit	Short Term	-	-	-	IVR A2+	-
4.	Letter of Credit	Short Term	2.50	IVR A2+	IVR A2+	IVR A2+	-
5.	Bank Guarantee	Short Term	0.40	IVR A2+	IVR A2+	IVR A2+	-
6.	Credit Exposure Limit	Short Term	0.52	IVR A2+	IVR A2+	IVR A2+	-

Name and Contact Details of the Rating Team:

Name: Amit Bhuwania

Tel: (022) 62396023

Email: abhuwania@infomerics.com

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 Instruments/ Facilities

Name of Instruments/ Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	57.00	IVR A-/ Negative
Letter of Credit	-	-	-	2.50	IVR A2+
Bank Guarantee	-	-	-	0.40	IVR A2+
Credit Exposure Limit	-	-	-	0.52	IVR A2+

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-Deevyashakti-oct23.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.