# Dhwani Polyprints Private Limited (DPPL)

## October 21, 2022

**Ratings**

| Instrument / Facility | Amount (Rs. crore) | Current Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|
| Long Term Fund Based Bank Facilities | 27.09 (Reduced from 27.45) | IVR BBB-/ Positive (IVR Triple B Minus with Positive Outlook) | Rating Reaffirmed and Outlook revised | Simple |
| Short Term Non-Fund Based Bank Facilities | 1.50 (Reduced from 2.50) | IVR A3 (IVR A Three) | Reaffirmed | Simple |
| **Total** | **Rs. 28.59 crore (Rupees Twenty-Eight crore and Fifty Nine lakh only)** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The reaffirmation of the rating assigned to the bank facilities of Dhwani Polyprints Private Limited (DPPL) continues to derive strength from the extensive experience of promoters in the packaging industry, wide product profile and healthy order book, reputed client base, healthy financial risk profile and comfortable working capital management. These strengths are, however, partially offset by susceptibility of its profitability to volatility in raw material prices and foreign exchange rate fluctuations, low bargaining power with suppliers and intense competition due to highly fragmented nature of packaging industry.

The company is expected to gain from the experience of the promoters in the packaging industry and long-term relationship with reputed companies translating into repeat orders. The company is also expanding its customer base and adding new value-added products for niche security packaging needs which has started yielding higher margins for DPPL. The rating outlook has thus been revised to Positive for the company.

**Key Rating Sensitivities**

**Upward Factors**

- Sustained growth in revenue around 20% annually leading to improvement in debt protection metrics.

- Improvement of EBITDA margin above 8% on a sustained basis

**Downward Factors**

- Any decline in operating income and/or profitability leading to deterioration in debt protection metrics.
- Any debt funded capex leading to deterioration in the capital structure, debt protection parameters and/or the liquidity position of the company

**Key Rating Drivers with detailed description**

**Extensive experience of promoters and established relationships**

DPPL is promoted by Mr. Rajesh Roongta and Mr. Sanjay Roongta. They have more than four decades of experience in the packaging industry. Mr Aditya Roongta, a Chartered Accountant, is the CEO of the company with 11 years of experience in the packaging industry. This extensive experience of the promoters has helped them develop a strong understanding of the market dynamics and cultivate relationship with customers and suppliers, which will continue to support the business risk profile and help the company add new clients.

**Wide product profile and reputed client base**

The company is engaged in the manufacturing and exporting of duty-free bags, plastic films roll, security bags, micro-perforated bags, courier bags, shopping bags, box polyethylene bags etc. In the recent years, it has started manufacturing and supplying security bags offering various security features which are used for the safe keeping and transportation of low to high value merchandise by industry leaders such as DHL, Amazon (through third party), Brinks, Wells Fargo, Mumbai Duty Free, Qatar Duty Free, First cry etc. The company has also developed a brand ‘SoundSeal’ to meet the demand of the niche security packaging industry. DPPL has recently received the GRS (Global Recycled Standard) certification which means it can make bags with up to 100% recycled content.

DPPL was the first player in India to offer up to four big size UV printed barcodes bags. This has helped the company secure orders from various banks in the UK and USA markets. DPPL has also launched a new range of pre-opened bags in the recent times. The company has been constantly making innovations to keep up with market trends, which has helped the company secure niche orders from prestigious clients with better realisations and bodes well for the company's growth prospects in the medium term.

**Healthy order book**

DPPL has a healthy order book position of Rs. ~42.33 crore as on September 30, 2022, which is about ~31% of its FY22 revenue (i.e., Rs.135.66 crore). The turnaround time to complete orders depend upon the specifications involved in the order process and may range between 15-20 days. The company has sufficient order, at any given point of time and gets repeat orders from its clients on a continuing basis.

**Healthy financial risk profile**

DPPL's total operating income recorded a CAGR growth of ~33% in the last 3 years ended FY22 on the back of increase in sales volume coupled with increased average realization. Trading revenues along with repeat demand from its diverse customer profile spread across various industries ranging from e-commerce, banking, courier, and various geographies such as Asia, Europe, Norther America, and Africa have supported the growth. The revenue and absolute EBITDA increased to Rs.135.66 crore and Rs.10.42 crore respectively in FY22 as against Rs.101.12 crore and Rs.9.77 crore respectively in FY21 due to positive demand outlook for the products. However, the EBITDA and PAT margin slightly deteriorated to 7.68% and 4.02% respectively in FY22 as against 9.66% and 4.38% respectively in FY20 due to volatility in the raw material prices.

Financial risk profile of the company is marked with a modest Tangible Networth of Rs.23.87 crore in FY22. The company's capital structure is moderately leveraged in FY22, with overall gearing ratio and TOL/TNW ratio at 1.09 times and 1.28 times respectively as on March 31, 2022, as against 1.14 times and 1.29 times respectively as on March 31, 2021. The debt protection metrics have remained moderate with interest coverage ratio and total debt to GCA of 6.31 times and 3.44 years respectively in FY22 as against 5.65 times and 3.12 years respectively in FY21.

**Comfortable working capital management**

DPPL has comfortable working capital cycle as reflected by its low operating cycle at around 36 days in FY22. Credit period allowed to domestic customers is at around 20-25 days and for exports the payment is primarily received in advance. Accordingly, its average collection period of 14 days in FY22 as against 15 days in FY21. DPPL maintains lower inventory of raw material and finished goods inventory of around 25-35 days on account of local availability of raw material. It must be noted that majority of the inventory is order backed.

**Key Weaknesses**

**Profitability susceptible to volatility in raw material prices and foreign exchange rate fluctuations**

DPPL's margins remains exposed to volatility in the key raw material prices such as Polypropylene (PP) and Low-Density Polyethylene (LDPE). Polypropylene granules, a key raw material, is a crude oil derivative. Hence, the price of the raw material is directly related to the crude oil prices which are volatile in nature. In an adverse market scenario, the company may find it difficult to pass on the increase in prices to end users. However, the company can mitigate this risk to a large extent as majority of the procurement is order backed and it also has a policy of passing any increase in the raw materials beyond 5% to its customers. Further, the profitability of the company is also exposed to volatility in foreign currency rates as the company derives around 31% of its revenue from exports in FY22. The company does not have any hedging policy in place as the exports are mainly done against advance payment, mitigating this risk to an extent.

**Low bargaining power with suppliers**

The company procures majority of its raw material from large petrochemical companies thus posing a risk of supplier concentration and low bargaining power impacting the profitability to an extent. Further, the limited credit period on procurements strains the working capital profile of the company.

**Intense competition due to highly fragmented nature of industry**

The security bags manufacturing industry is characterized by limited entry barriers and witnesses stiff competition from numerous unorganized players, organized players, and overseas players, which in turn exerts pricing pressure on the company. However, DPPL's long-term relationship with reputed customers, constant innovations and upgradations, introduction of niche products lends it a competitive advantage.

**Analytical Approach:** Standalone Approach

**Applicable Criteria:**

[Criteria of assigning Rating Outlook]

[Rating Methodology for Manufacturing Companies]

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

**Liquidity: Adequate**

DPPL's liquidity remains adequate with sufficient cash generation to service its debt. As against annual debt repayments of Rs.4.56 crore in FY22, the company's Gross Cash Accruals stood at Rs.7.52 crore. The company had a cash balance of Rs.1.83 crore as on March 31, 2022. The operating cycle of the company is comfortable at ~36 days in FY22. Further the company has current ratio of 1.52 times as on March 2022. The average working capital utilization of DPPL stood at ~55% during the 12 months period ended August 2022. Further, no major capex is expected to be incurred in the period FY23-25, giving the company enough cushion to scale up its operations.

**About the Company**

Established in the year 1996, DPPL is manufacturer and exporter of duty-free bags, plastic film rolls, security bags, micro-perforated bags, courier bags, shopping bags, box polyethylene bags etc. Inspired by globally advancing packaging solutions, DPPL introduced SoundSeal™ catering to tamper-proof security packaging solutions for a wide range of applications. It also has a GRS certification for producing bags with 100% recycled content. DPPL's production activities take place at Daman which is equipped to handle large scale operations and produces up to 6,000 MT annually. The company is promoted by Mr. Rajesh Roongta and Mr. Sanjay Roongta. Mr. Aditya Roongta is the CEO of the company.

**Financials: (Standalone)**

(Rs. crore)

| For the year ended/ As on* | 31-03-2021 (Audited) | 31-03-2022 (Audited) |
|---|---|---|
| Total Operating Income | 101.12 | 135.66 |
| EBITDA | 9.77 | 10.42 |
| PAT | 4.45 | 5.50 |
| Total Debt | 20.60 | 25.83 |
| Tangible Networth | 18.11 | 23.60 |
| **Ratios** | | |

| For the year ended/ As on* | 31-03-2021 (Audited) | 31-03-2022 (Audited) |
|---|---|---|
| EBITDA Margin (%) | 9.66 | 7.68 |
| PAT Margin (%) | 4.38 | 4.02 |
| Overall Gearing Ratio (x) | 1.14 | 1.09 |

**Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Not Applicable

**Rating History for last three years:**

| Sr. No | Name of Instrument/ Facilities | Current Ratings (Year 2022-23) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-22 (Oct 13, 2021) | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 |
| 1. | Term Loan | Long Term | 11.09 | IVR BBB-/ Positive | IVR BBB-/ Stable | - | - |
| 2. | Cash Credit | Long Term | 16.00 | IVR BBB-/ Positive | IVR BBB-/ Stable | - | - |
| 3. | Letter of Credit | Short Term | 1.00 | IVR A3 | IVR A3 | - | - |
| 4. | Bank Guarantee | Short Term | 0.50 | IVR A3 | IVR A3 | - | - |

**Name and Contact Details of the Rating Team:**

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|---|---|
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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 firm 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.



**Annexure 1: Details of Facilities:**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Term Loan | - | - | August 2037 | 11.09 | IVR BBB-/ Positive |
| Cash Credit | - | - | - | 16.00 | IVR BBB-/ Positive |
| Letter of Credit | | | | 1.00 | IVR A3 |
| Bank Guarantee | - | - | - | 0.50 | IVR A3 |

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

**Annexure 3: Facility wise lender details:**

**https://www.infomerics.com/admin/prfiles/Len-Dhwani-Polyprints-oct22.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 based on complexity and a note thereon is available at www.infomerics.com.