Press Release

Dugar Polymers Limited (DPL)
February 14, 2022

Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action	Complexity Indicator
Fund Based Bank Facilities – Term Loans	31.20 (increased from 2.35)	IVR BBB- / CWDI (IVR Triple B Minus with CWDI)	Revised & Placed under CWDI; Removed from ISSUER NOT COOPERATING category	Simple
Long Term Fund Based Facility – Cash Credit	38.75 (increased from 38.00)	IVR BBB- / CWDI (IVR Triple B Minus with CWDI)	Revised & Placed under CWDI; Removed from ISSUER NOT COOPERATING category	Simple
Non-Fund Based Bank Facilities – Bank Guarantee	5.50	IVR A3 / CWDI (IVR A Three with CWDI)	Revised & Placed under CWDI; Removed from ISSUER NOT COOPERATING category	Simple
Non-Fund Based Bank Facilities – Forward Cover	0.15	IVR A3 / CWDI (IVR A Three with CWDI)	Revised & Placed under CWDI; Removed from ISSUER NOT COOPERATING category	Simple
Proposed Long Term Fund Based Facility – Cash Credit	0.40	IVR BBB- / CWDI (IVR Triple B Minus with CWDI)	Assigned & Placed under CWDI	Simple
Total	**76.00**			

CWDI: Credit watch with developing implications

Details of Facilities are in Annexure 1

Detailed Rationale:

The rating was migrated to ISSUER NOT COOPEARTING as the company had not submitted all the required information for surveillance under the stipulated timelines. Subsequently, the company has cooperated and provided the information leading to removal of the rating from ISSUER NOT COOPEARTING category.

The revision in the ratings assigned to the bank facilities of Dugar Polymers Limited's reflects overall improvement in the operational & financial parameters in FY21 and expected substantial improvement in revenue and debt protection parameter in FY22 and beyond.

Further the ratings continue to derive strength from its experienced management and established track record, niche product segment, diversified customer profile & catering to different sector, healthy growth prospects, improving EBITDA margin and PAT margin and moderate capital structure and debt coverage indicators. However, the rating strengths are partially offset by competitive and fragmented industry and exposure to volatility in raw material prices and foreign exchange rates.

The rating is placed under credit watch with developing implications to monitor the company's performance in the new segment and improvement in the debtor positions as projected.

Key Rating Sensitivities:

Upward Factors:

- Substantial & sustained improvement in the company's revenue and profitability leading to sustained improvement in debt protection metrics & gross cash conversion cycle.

Downward Factors:

- Any decline in scale of operations, profitability and/or liquidity profile leading to significant deterioration of debt protection metrics and/or further elongation of gross cash conversion cycle.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced management and established track record:

The Company was incorporated in February 2003 by Mr. Manoj Dugar and Mr. Rajesh Dugar. The operations of the Company are spearheaded by Mr. Manoj Dugar, chairman of the Company. He is a Charted Accountant and possesses over 25 years of experience in the industry whereas Mr. Rajesh Dugar possess over 22 years of industry experience.

Niche Product Segment:

As per the management, the Company produces India's highest width and thickness PP-HD Extrusion Sheets. The thickness of the same ranges from 0.8 mm to 200 mm. DPL is the only player in India who produces sheets up to 200 mm thickness. In terms of width also DPL produces sheets up to 3.5 metre width which is highest in the country. These sheets finds various industrial applications such as in building basement, landfills, concrete structures, crystallization pond, neutralizing tank, pond lining, tank lining, chemical area lining, geomembrane liners, etc. The Company also produces solid rods ranging from dia 8mm to up to 350mm, which is again highest in the Country as stated by the management.

Recently the company has acquired, plant and machinery of Parekh Aluminex Limited through NCLT. Parekh Aluminex Limited specialised in the manufacturing of Aluminium Foil Containers & Aluminium Foil cut sheet / lids and was once leader in the Indian Aluminium Packaging Market. The Total cost of the acquisition was around INR 29.92 Crore. Post the acquisition, Dugar Polymers Limited have entered into a new segment i.e. manufacturing of Aluminium Foil Containers, Aluminium Foil Rolls & Aluminium Foil cut sheet / lids. Along with Plant and machinery, company have acquired more than 250 Moulds for Aluminium Foil Containers**.**

Diversified Customer Profile & Catering to different sector:

The Company has a diversified customer profile including clients across different sectors including Chemical, Steel, Pharmaceutical, etc. The Company has pan India presence through its strong marketing team.

With the commissioning of new unit, company will now carter to the needs of various airline, hotels and restaurants, bakeries as well.

Healthy Growth prospects:

Packaging industry has been an important sector driving technology and innovation growth in the country and adding value to the various manufacturing sectors including agriculture and FMCG segments. Rise in consumption is driven by key aspects of the rising Indian economy namely, strong favourable demographics, increasing disposable income levels, rising consumer awareness and demand for processed food. The growth of individual end user segments of food, beverages, FMCG and pharmaceuticals will trickle down into rising demand of packaging solutions. Government of India recognised the potential of this sector and released a slew of policies like the single use plastic ban policy, profit linked tax incentive for food packaging, adoption of National Packaging Initiative, to further incentivise innovation in this sector.

Company’s revenue declined to INR 85.38 Crore FY20 & INR 80.32 Crore in FY21 on account of headwinds arising out of ongoing global Covid-19 pandemic (FY18: INR 83.31 Crore; FY19: INR 95.03 Crore). However, revenue is expected to improve in FY22 with the commencement of commercial production in the new segment backed by the orders received for Aluminium Foil Containers and other products along with expected improved revenue from existing product portfolio.

During 9M FY22, the company has achieved revenue of INR 101.67 Crore (9M FY21: INR 58.79 Crore). Adding a new segment (Aluminium Foil Containers) to this existing bucket of packaging products, Dugar polymers Limited will have added advantage.

Improving EBITDA Margin and PAT Margin:

The EBITDA margin and PAT Margins are improving year on year since past four fiscals as the Company has added high margin products to its product range. The EBITDA margin has improved to 13.15% in FY21 (FY:20 11.00%, FY19: 9.37%, FY18: 9.14%) whereas PAT margin improved to 4.48% in FY21 (FY:20 2.92%, FY19: 2.49%, FY18: 1.52%).

During 1H FY22, Company's EBITDA Margin and PAT Margin stood 12.78% and 8.55% respectively. (1H FY21: EBITDA Margin: 12.28%, PAT: 3.34%).

Moderate capital structure and debt coverage indicators:

Company's capital structure remained moderate with overall gearing ratio of around 1.78x in FY21 (FY20: 2.07x) and Long-Term Debt Equity ratio stood at 0.31x in FY21 (0.17x). The adjusted net worth of company stood at INR 22.11 Crore as on 31 March 2021 (INR 18.38 Crore). Total debt increased to INR 39.33 Crore in FY21 (INR 38.07 Crore). TOL/ATNW stood at 2.29 times as on 31 March 2021 (2.47x). Total debt/GCA as 7.60x in FY21 (9.73x). Debt protection parameters also remained moderate with interest coverage ratio of 2.52x in FY21 (1.99x). Total debt/GCA, interest coverage & other debt protection metrics expected to remain moderate moving forward.

The total cost of the recent acquisition was around INR 29.92 Crore which was funded from INR 23.00 Crore via Term Loan and remaining from Promoter contributions. Company have started with partial production with 8 machines in January 2022 and further 12 machines will be put to use in the current financial year and balance by FY23 in phased manner (in total company have 50 Foil Containers & 10 Foil Rolls). The incremental benefits of the capex will start from FY23. Capital structure will marginally deteriorate in FY22 & FY23 on temporary basis because of the recent acquisition.

Key Rating Weaknesses:

Competitive and fragmented industry

Company operates in packaging and polymer industry, which is characterized by high fragmentation and competitive intensity marked by the presence of several small to big size players in the organized as well as unorganized sector, resulting from low capital intensity and technical complexity along with lower product differentiation. However, this risk is mitigated to an extent as the management has been operating in this industry for more than two decades. Additionally, as per the management, the Company produces India's highest width and thickness PP-HD Extrusion Sheets and have more than 250 for Aluminium Foil Containers. Moreover, majority of products find application in food products, cement, ago-commodities and fertilizer industries; thereby its future growth prospects are directly linked to growth in these industries.

Exposure to volatility in raw material prices and foreign exchange rates:

The profitability of company is susceptible to volatility in prices of its raw material and foreign currency fluctuations. Prices of the key raw materials such as low-density polyethylene, linear low-density polyethylene, high-density polyethylene (HDPE) and polypropylene (PP) granules are linked to global crude oil movements, hence volatile. Since raw material cost accounts for a bulk of total production cost, variation in rates may impact profitability. Till FY21 majority of the raw materials were imported. However, in 1H FY22 company had procured from domestic markets as imports were restricted and had high sea freight cost. Currently company is making very nominal direct exports and company also export via merchants and the dealing in is rupees. Company hedges the currency as per the market scenario.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

Guidelines on what constitutes Non-Cooperation by clients.

Liquidity: Adequate

The liquidity position of the company remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations. Further, the company had gross cash accruals of INR. 5.18 Crore in FY21. The overall average utilisation of the limits (fund based and non-fund based) remains comfortable at around 93.11% and 99.64% respectively during the last 12 months ended December 2021. The current ratio stood at 1.32 times as on 31st March 2021. The cash & bank balance was INR 0.20 Crore as on 31st March 2021.

About the Company:

Dugar Polymers Limited (DPL) was incorporated in February 2003 by Mr. Manoj Dugar and Mr. Rajesh Dugar. The Company is equipped with state of art infrastructure & facilities with hi-tech machineries inclusive of Extrusion sheet & Rods production plants, PP-HD Pipe Production Lines, Multi-layer Cast Film Production Line, PVC Sheet & Rods production line

& PVC Cable Compound production Lines integrated with fine Laboratories equipped with advance Lab Equipment's under three unit situated at Dadra & Nagar Haveli (Unit 1 & 2) and Surat (Unit 3). These products find various industrial applications like partition, linings, flooring, roofs and cable compound. DPL is also a Del Credere Agent/Consignment Stockiest of IOCL for Andhra Pradesh and Telangana states for polymer products. This operations are handled at Unit 4 situated in at Hyderabad. Dugar Polymers Limited have entered into a new segment i.e. manufacturing of Aluminium Foil Containers, Aluminium Foil Rolls & Aluminium Foil cut sheet / lids. The unit situated at Dadra & Nagar Haveli.

Financials:

(INR Crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	85.38	80.32
EBITDA	9.39	10.56
PAT	2.50	3.61
Total Debt	38.07	39.33
Adjusted Tangible Net-worth	18.38	22.11
Ratios		
EBITDA Margin (%)	11.00	13.15
PAT Margin (%)	2.92	4.48
Overall Gearing Ratio (x)	2.07	1.78

Status of non-cooperation with previous CRA:

Acuite rating and ICRA rating vide its press release dated 01st December 2021 and 26th May 2021 respectively continues to classify the case under Issuer Not Co-operating category.

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (27/Sep/21)	Date(s) & Rating(s) assigned in 2020-21 (06/Aug/20)	Date(s) & Rating(s) assigned in 2019-20
1	Fund Based Bank Facilities – Term Loans	Long Term	31.20	IVR BBB- / CWDI	IVR BB (INC)*	IVR BB+/ Stable	--
2	Long Term Fund Based Facility – Cash Credit	Long Term	38.75	IVR BBB- / CWDI	IVR BB (INC)*	IVR BB+/ Stable	--
3	Non-Fund	Short	5.50	IVR A3	IVR A4	IVR A4+	--

	Based Bank Facilities – Bank Guarantee	Term		/ CWDI	(INC)*		
4	Non-Fund Based Bank Facilities – Forward Cover	Short Term	0.15	IVR A3 / CWDI	IVR A4 (INC)*	IVR A4+	--
5	Proposed Long Term Fund Based Facility – Cash Credit	Long Term	0.40	IVR BBB- / CWDI	--	--	--

CWDI: Credit watch with developing implications

**Issuer did not cooperate; based on best available information.*

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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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities:

(INR Crore)

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility	Rating Assigned/ Outlook
Fund Based Bank Facilities – Term Loans	--	--	Upto Jul – 2031	31.20	IVR BBB- / CWDI
Long Term Fund Based Facility – Cash Credit	--	--	--	38.75	IVR BBB- / CWDI
Non-Fund Based Bank Facilities – Bank Guarantee	--	--	--	5.50	IVR A3 / CWDI
Non-Fund Based Bank Facilities – Forward Cover	--	--	--	0.15	IVR A3 / CWDI
Proposed Long Term Fund Based Facility – Cash Credit	--	--	--	0.40	IVR BBB- / CWDI

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Dugar-Polymers-lenders-feb22.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 https://www.infomerics.com/.