

Press Release**Deevya Shakti Paper Mills Pvt. Ltd****February 11, 2019****Rating**

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Fund Based Facilities	36.00	IVR A- with Stable Outlook/IVR A2+ (IVR Single A Minus with Stable Outlook/IVR A Two Plus)	Reaffirmed
Long Term Debt - Term Loan	5.00	IVR A- with Stable Outlook (IVR Single A Minus with Stable Outlook)	Reaffirmed
Non-Fund Based Facilities	6.22	IVR A2+ (IVR A Two Plus)	Reaffirmed
Total	47.22		

Details of Facilities are in Annexure I**Detailed Rationale**

The rating of Deevya Shakti Paper Mills Private Limited (DSPM) derives comfort from its experienced promoters, established distribution network, use of latest production technology, healthy profitability margin, comfortable capital structure and debt protection metrics and comfortable liquidity. The rating also takes into consideration the modest scale of operations, susceptibility of margins to volatility in prices of raw material, low entry barriers with high competition from organised and unorganised players, uncertainties associated with Investment in land and risk of forex fluctuation. Scaling up of operations. Uncertainties regarding investment in real estate and maintain debt metrics are the key rating sensitivities.

Detailed Description of the Key Rating Drivers**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, Mr. Sushil and Mr. Gaurav are the second-generation entrepreneurs who actively participate in managing the operations of the company.

Established distribution network

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

Latest production technology

DSPM's paper board plant is equipped with the latest 4+1 multi-wire technology in comparison with other mills which mostly use conventional machines. The company uses imported machinery and the process is fully computerized and equipped with advanced DCS and QCS systems.

Healthy profitability margins

The EBITDA margin of the company has been healthy in the range of 9.00%-11%. PAT margin has been in the range of 4%-5%.

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

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 44% during the last twelve months ended November 30, 2018.

Key Weaknesses

Modest scale of operation

DSPM reported healthy growth in total operating income by 14% to Rs.275 crore in FY18, however the scale of operations continues to be modest. 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. The price 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 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.

Uncertainties associated with Investment in land

In April 2017, DSPM purchased land measuring over 5 acres at cost of around Rs.27 crore in Hyderabad. The company has not finalised the plans for the same. Any risk arising out of this investment, pertaining to an unrelated area, would be a key rating sensitivity. However, the risk involved appears to be on the lower side since the land value has appreciated post purchase by the company.

Risk of Forex fluctuation

During FY18, exports stood at 27% of total sales and imports stood at 31% of total purchases. The company does not resort to any hedging. However, imports as well as exports provides a natural hedge for the company against the foreign currency risk to great extent.

Analytical Approach & Applicable Criteria

- Standalone
- Rating Methodology for Manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The long-term debt of the company, on overall basis, is low and hence, debt servicing obligations are majorly on interest on working capital borrowings. The fund based working capital limit to turnover of the company is also low at ~44%. The lower utilisation of the available limits indicates cushion for liquidity.

About the Company

Deevya Shakti Paper Mills Pvt. Ltd (DSPM) was promoted by Mr. Mohanlal Agarwal and his family, in 2009. Mr. Ravindra, Mr. Sushil and Mr. Anil, the three directors are second 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 a experience of around 18 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 metre) to 450 gsm. The products manufactured by the company find application in industries like FMCG and Pharma. The major raw material for the company is waste paper.

Financials (Standalone)

(Rs. crore)

For the year ended/ As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	237.91	271.55
EBITDA	23.00	24.62
PAT	11.66	11.77
Total Debt	6.91	23.77
Tangible Networth	97.94	109.69
Ratios		
EBITDA Margin (%)	9.67	9.07
PAT Margin (%)	4.85	4.30
Overall Gearing Ratio (x)	0.07	0.22

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	
1.	Fund Based Facilities	Long	36.00	IVR A- with Stable Outlook/IVR A2+	IVR A- with Stable Outlook/IVR A2+ (January 18,2018)	--	--	
2.	Long Term Debt - Term Loan	Long	5.00	IVR A- with Stable Outlook	IVR A- with Stable Outlook (January 18,2018)	--	--	
3.	Non-Fund Based Facilities	Short	6.22	IVR A2+	IVR A2+ (January 18,2018)	--	--	

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. Crores)	Rating Assigned/ Outlook
Fund Based Facilities	-	-	-	36.00	Reaffirmed
Long Term Debt - Term Loan	-	-	June 2021	5.00	Reaffirmed
Non-Fund Based Facilities	-	-	-	6.22	Reaffirmed