Press Release

DMG Polypack Pvt Ltd.

December 11, 2017

Ratings

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long-Term Debt- Term Loan	13.31	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Long Term Fund based facilities- Cash Credit	4.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Fund based facilities- Foreign Bill Discounting	2.69 (including proposed limits of Rs.0.69 crore)	IVR A3 (IVR A Three)	Assigned
Total	**20.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings take into account the experienced promoters along with long track record of the entity and operations in a niche product segment along with healthy potential demand. The ratings also derive strength from healthy profitability margins, optimum operating cycle and comfortable liquidity profile.

The ratings, however, are tempered by small scale of operations, increasing leverage, geographical and supplier concentration risk, and susceptibility of profitability to raw material prices and forex rates.

Maintaining its profitability margins whilst growing its scale of operations and reducing leverage remain the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters along with long track record.
- Niche Product Segment along with healthy potential demand
- Healthy Profitability Margins
- Optimum Operating Cycle

- Comfortable Liquidity Profile
- Small; albeit growing scale of operations
- Increasing Leverage
- Geographical & Supplier Concentration Risk
- Susceptibility of profitability to volatility in crude oil prices and forex rates

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced promoters along with long track record

DPPL was originally promoted by Mr. Manmohan Jasuja, and his two sons, Mr. Diamond Jasuja & Mr. Mohit Jasuja, in 2009. Earlier, 2006 onwards, the entity was carrying on operations as a proprietary concern. The day to day affairs of the entity are looked after by Mr. Mohit Jasuja, who is a commerce graduate and has a vast experience spanning over two decades in the field of plastics and packaging. Mr Diamond Jasuja, who holds a post graduate diploma in Computer Science from NIIT, is based in the US and looks after the operations of DMG Polypack Inc.

Niche Product Segment along with healthy potential demand

The company operates in a niche segment with its product portfolio comprising coated films, coated foils, metalized films, metalized foils, aluminium foils and other related products. The company's products are expected to witness a steady demand in areas like food packaging, labelling, building and construction.

Healthy Profitability Margins

The company's profitability margins were healthy and increasing with EBITDA margin of 26.94% and PAT margin of 6.21% during FY17 due to focus on R&D activities as a result of which it is able to offer differentiated quality and customized products at a reasonable price.

Optimum Operating Cycle

The company deals with its customers generally by taking an upfront advance of 100% of the value, whilst offering a credit period in the range of 30-90 days in very few cases. However, it is able to avail a credit period of 30-60 days from its suppliers. Also, the company generally follows a policy of maintaining minimal inventory, as the orders are generally customized in nature, resulting in a negative operating cycle during FY17.

Comfortable Liquidity Profile

DPPL's liquidity profile was marked by average utilisation of 41% of its fund based limits over the past one year. Further, the company had a free cash and bank balance of Rs.2.87 crore as on March 31, 2017.

Key Rating Weaknesses

Small; albeit growing scale of operations

The company has a small scale of operations reflected in terms of a topline of Rs.26.34 crore during FY17. However, the company has incurred capital expenditure for new machinery and expects to expand its installed capacity from 7100 M.T. p.a. to 12700 M.T. p.a.

Increasing Leverage

The company had a long-term debt equity ratio of 0.67x and overall gearing of 0.70x as on March 31, 2017.

However, the company has already taken additional debt of Rs.11.24 crore for its capacity expansion, which has increased the gearing levels.

Geographical & Supplier Concentration Risk

DPPL's sales to its US subsidiary, DMG Polypack Inc (which sells its products to its US based clients) contribute about 62% of DPPL's topline, leading to geographical concentration risk. Further, its top five suppliers constitute about 74% of the total purchases, indicating supplier concentration risk as well.

Susceptibility of profitability to volatility in crude oil prices and forex rates

Prices of poly films, which is manufactured from plastic resins, are directly related to global crude oil prices which has exhibited considerable volatility in the past on account of various reasons. Thus any adverse movement in global crude oil prices may impact the profitability of DPPL.

Further, about 70% of DPPL's receivables are in USD and Euro which the company does not hedge. The company has very minimal imports, leading to susceptibility of profitability to the strengthening of the Rupee against the foreign currencies, though the same is not very likely.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Incorporated in September 2009, DMG Polypack Pvt Ltd (DPPL), undertakes manufacturing of plastic and packaging products like coated films, coated foils, metallized films, metallized foils, aluminium foils and other related products. The products manufactured by the company find application in areas like food packaging, labelling, building and construction etc. The company's manufacturing facility, which is spread over 40,000 sq feet is located at Greater Noida. The company is a recognized 1 Star Export house and its exports contribute more than 70% of its total revenues. DPPL had formed a marketing arm on October 26, 2015 in the USA, DMG Polypack Inc, which serves as a direct point of sourcing for its customers located in North, South, Central and Latin America. This proved to be beneficial for DPPL's clients as they were able to get door-step delivery of their desired requirements. Sales to the US subsidiary accounted for about 60% of DPPL's revenue during FY17. The day-to-day affairs of the company are handled by the promoters themselves led by Mr. Mohit Jasuja who has about two decades of experience in the plastics and packaging industry.

Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	23.77	26.25

For the year ended / As On	31-03-2016	31-03-2017
EBITDA	5.42	7.07
PAT	1.19	1.64
Total Debt	7.06	6.03
Tangible Networth	7.07	8.67
EBITDA Margin (%)	22.80	26.94
PAT Margin (%)	5.00	6.21
Overall Gearing Ratio (x)	1.00	0.70

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Debt-Term Loan	Long Term	13.31	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	--	--	--
2.	Long Term Fund Based Limits-Cash Credit	Long Term	4.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)			
3.	Short Term Fund Based Limits-Foreign Bill Discounting	Short Term	2.69 (incl. proposed limits of Rs.0.69 crore)	IVR A3 (IVR A Three)	--	--	--

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. 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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt- Term Loan	Present Outstanding	Varied	November 21, 2022	13.31	IVR BBB- /Stable Outlook (IVR Triple B Minus with Stable Outlook)

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit				4.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Short Term Fund Based Limits- Foreign Bill Discounting	--	--	--	2.69 (including proposed limits of Rs.0.69 crore)	IVR A3 (IVR A Three)