

## Press Release

### Deevya Shakti Paper Mills Pvt Ltd.

January 18, 2018

#### 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)	Assigned
Term Loans	6.50	IVR A- with Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
Non-Fund Based Facilities	6.22	IVR A2+ (IVR A Two Plus)	Assigned
Total	48.72		

**Details of Facility are in Annexure 1**

#### 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, improving profit levels, 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 and the uncertainties associated with investment in land. Growth in scale of operations, profitability, gearing levels and future plans regarding investment are the key rating sensitivities.

#### Key Rating Factors

- Experienced promoters
- Established distribution network
- Latest production technology
- Improving profit levels
- Comfortable capital structure and debt protection metrics

- Comfortable liquidity
- Modest scale of operation
- 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
- Growth in scale of operation
- Profitability
- Gearing levels
- Future plans regarding the investment in land

## **Detailed Description of Key Rating Drivers**

### **Experienced promoters**

DSPM was promoted by Mr. Mohanlal Agarwal and his family, in 2009. 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. DSPM 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.

### **Latest production technology**

DSPM's paper board plant is equipped with the latest 4+1 multi-wire technology in comparison with other mills which are mostly using 1-3 layers or conventional Formers/Moulds. DSPM has state of the art imported machinery and the process is fully computerized and equipped with advanced DCS and QCS systems. The stock preparation process is equipped with De-inking and dispersion system. The plant has a capacity of 300 tons/day with 4 layer wire part and a GSM Range of 180-450 gsm.

DSPM manufactures tailor-made products for its customers depending upon their requirements

### **Improving profit levels**

The EBITDA margin has been apparently in the range of 9.5%-12%. However, the same was bit distorted as there were power subsidies till FY16 which were temporary in nature. During FY15 and FY16, the company received power subsidy to the extent of Rs.2.96 cr and Rs.7.38 cr from Andhra Pradesh Government under IIPP 2005-2010 scheme. If we negate the power subsidy factor, then it is seen to have been gradually improving its profit margins as can be evident from the following table :-

	FY15	FY16	FY17
EBITDA Margin %	10.06	12.21	9.67
EBITDA Margin % (excluding power subsidy)	8.85	9.17	9.67

Further, the business of the company is better generally in second half of the financial year. In the current year, the EBITDA margin have improved from 8.57% in H1FY17 to 9.13% in H1FY18 primarily on the back of increase in exports yielding higher realisations. Further, the Chinese Government's decision to ban waste paper import is also expected to benefit the margins of the company since H2FY18 on account of lower global waste paper prices.

### **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 of 0.07 times as on March 31,2017. Total debt increased in H1FY18, as the company purchased land of around Rs. 27 crore in April 2017,out of accruals, resulting in increase in average working capital utilisation from 11% in H2FY17 to 53% in 7MFY18.

### **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 53% during the first 7 months of the current financial year. Other liquidity parameters have also generally been comfortable.

### **Key Weaknesses:**

#### **Modest scale of operation**

Over the last three years, DSPM reported Total Operating Income in the range of Rs.235 crore to Rs.245 crore, with marginal decline during the last year. However, the same picked up in H1FY18 resulting in around 14% growth in Total Operating Income to Rs.137.72 cr over H1FY17 (Rs.121.01 cr) supported by increase in demand in overseas market. Going forward, the company's ability to maintain business growth amidst competition is a key rating driver.

#### **Susceptibility of margins to volatility in prices of raw material:**

The operations of the company are raw material intensive as reflected by 70%-75% contribution to total cost of sales. The prices 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 organised and unorganised 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 and it is exploring various options. Any risk arising out of such investment, pertaining to an unrelated area, would be a key rating sensitivity. The company has given us to understand

that they might go for an real estate venture or might sell off at the appropriate time as that area is witnessing significant hike in land prices.

## **Analytical Approach & Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## **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 15 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**

(Rs. Crores)

<b>For the year ended / Rs. Crs</b>	<b>31-03-2016</b>	<b>31-03-2017</b>
	<b>Audited</b>	<b>Audited</b>
Total Operating Income	242.7	237.9
EBITDA	29.6	23.0
PAT	15.2	11.7
Total Debt	16.1	6.9
Tangible Net Worth	86.3	97.9
<b>Ratios</b>		

For the year ended / Rs. Crs	31-03-2016	31-03-2017
	Audited	Audited
a. EBITDA Margin	12.21	9.67
b. PAT Margin	6.23	4.85
c. Overall Gearing ratio	0.19	0.07

Note: Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:**N.A

**Disclosure:**

**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.	Fund Based Facilities-	Short Term	36.00	IVR A- with Stable Outlook/IVR A2+ (IVR Single A Minus with Stable Outlook/IVR A Two Plus)	--	--	--
2.	Term Loans		6.50	IVR A- with Stable Outlook(IVR Single A Minus with Stable Outlook)			
3.	Non-Fund Based Facilities		6.22	IVR A2+ (IVR A Two Plus)			

**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](http://www.infomerics.com).

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## About Infomerics:

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**Annexure 1: Details of Facility**

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility(Rs. Crores)	Rating Assigned/ Outlook
Cash Credit	-	-	On Demand	36.00	IVR A- with Stable Outlook
-- WCDL (sub-limit of Cash Credit)	-	-	120 days	(35.00)	IVR A2+
--EPC/PCFC(sub-limit of Cash Credit)	-	-	120 days	(24.00)	IVR A2+
--FBD/EBR (sub-limit of Cash Credit)	-	-	120 days	(20.00)	IVR A2+
Term Loan (INR/FCNR)	Not drawn	-	3 years	6.50	IVR A- with Stable Outlook
ILC/FLC/Buyers credit	-	-	Upto 3 months	5.00	IVR A2+
--ILC/FLC/Buyers credit (sub-limit of Cash Credit)	-	-		(15.00)	IVR A2+
BG	-	-	Upto 6 months	0.40	IVR A2+
Credit Exposure Limit	-	-	Upto 6 months	0.52	IVR A2+
Corporate Credit card	-	-	On Demand	0.30	IVR A2+