Press Release

Duroply Industries Limited

February 03, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	42.74 (including proposed limit of Rs.1.78 crore)	IVR BB /Stable (IVR Double B with Stable Outlook)	Revised from IVR BB- /Stable (IVR Double B Minus with Stable Outlook)
Short Term Bank Facilities	37.26	IVR A4 (IVR A Four)	Reaffirmed
Total	**80.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Duroply Industries Limited (DPIL) takes into account the improvement in its scale of operation and profitability during FY19 coupled with improvement in H1FY20. Moreover, the aforesaid ratings continues to derive comfort from its long track record and experienced promoters and strategic location of the plant. Infomerics also notes its comfortable capital structure post-merger. However, the rating strengths are constrained by its small scale of operation, dominance of unorganized sector players in domestic plywood sector leading to intense competition, exposure to foreign currency fluctuation risk and working capital intensive nature of its operations.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals
- Significant improvement in debt protection metrics

Downward Factors

- Dip in operating income or profitability impacting the debt coverage indicators, subdued industry scenario, deterioration in operating cycle and moderation in overall gearing to more than 1.5 times could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record and experienced promoters**

DPIL has been in the business for more than half a century with the current promoters, signifying its long & established track record. Currently, the day-to-day affairs of the company are being looked after by Managing Director, Mr Sudip Chitlangia having around three decades of experience in the plywood industry. He is well supported by the other directors.

- **Strategic location of the plant**

DPIL's processing facility for tea division is located in Jeypore, Assam, which is in close proximity to various tea gardens. Further, these plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw-material and end market for its products results in containment of transportation. Infomerics expects that the profitability from the plywood sector will improve going forward driven by higher operation efficiency.

- **Improvement in financial risk profile marked by improved operating performance in FY19 and H1FY20**

The company witnessed a muted y-o-y growth of ~5% during FY19 as compared to FY18, though revenue improved from both tea and plywood segment. Further, the company started producing veneer from FY19. However, the operating profit witnessed steady improvement mainly due to higher operating efficiency achieved by the company mainly in the plywood segment. During FY19, the company discontinue plywood production in Assam plant due to low operating efficiency attributable to its old machineries and shifted the plywood manufacturing facility to Rajkot, Gujrat after the merger of PS Plywood Products Pvt. Ltd. (PSPPL). The Rajkot plant has high efficiency which resulted in higher profitability for the company. With improved operating margin by 272 bps, DIPL post net profit in FY19 as against net loss as well as cash loss in FY18. The company earned a GCA of Rs.3.43 crore in FY19. With improved operating profit, interest coverage ratio improved from 0.50x in FY18 to 1.38x in FY19. Further, post-merger, Total indebtedness and overall gearing of the company stood comfortable at 1.66x and 0.63x as on March 31, 2019. Further, during H1FY20 the company earned a PAT of Rs.0.57 crore on total operating income of Rs.110.25 crore with an EBITDA margin of 5.41%. TOL/TNW and Overall gearing remained comfortable at 1.84x and 0.67x respectively as on September 30, 2019.

Key Rating Weaknesses

- **Small scale of operation**

DPIL is relatively a small player in plywood manufacturing sector which is largely driven by established large players. Furthermore, the total capital employed was also modest at Rs.134.71 crore as on March 31, 2019. The small scale restricts the financial flexibility of the company in times of stress.

- **Dominance of unorganized sector players in domestic plywood sector leading to intense competition**

The plywood industry has many unorganised players catering to regional demand to reduce high transportation costs, as price is the main differentiating factor in this segment. Plywood demand and prices are also adversely affected by availability of cheap substitutes such as particle and medium-density fibre boards. Intense competition from big players like Century Ply, Greenply etc. may continue to restrict scalability and limit pricing power, thereby constraining profitability.

- **Exposure to foreign currency fluctuation risk**

DPIL is exposed to foreign exchange fluctuation risk due to its dependency on import of raw materials. The company consumed a small portion as imported raw materials of total raw material consumed. DPIL uses derivatives like forward contracts to hedge exposure to foreign currency risk. During FY19, DPIL incurred forex loss of Rs.0.66 crore as against forex gain of Rs. 0.43 crore in FY18.

- **Working capital intensive nature of operations**

The operation of DPIL is highly working capital intensive due to its high inventory holding requirements. The working capital requirements of the company is largely funded by bank borrowings and elongated credit period availed.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity-Adequate

The company has generated sufficient cash accrual of around Rs.3.09 crore as against repayment of Rs.2.08 Crore in FY19. The company is expected to generate steady cash accrual over the near medium term against negligible scheduled repayment obligation (Rs.0.96 crore in FY20 and Rs.1.20 crore in FY21 respectively). The Company's average utilisation of its bank lines was moderate, at around 80% during the past 12 months ended December, 2019 indicating an adequate liquidity buffer. Further, the company has no planned capex or availment of long-term debt which imparts comfort.

About the Company

Founded in 1957, by late Mr. P.D. Chitlangia, Duroply Industries Limited (DPIL) initiated its operation as Sarda Plywood Industries Ltd (name changed in December, 2018). Initially started as a plywood manufacturer in Assam, presently DIPL has two segments of operations, processing of tea and manufacturing of plywood. Tea processing facility is located at Jeypore, Assam and plywood manufacturing facility is located at Rajkot, Gujarat.
Earlier, the Rajkot facility was under the ownership of PS Plywood Products Pvt. Ltd. (PSPPL) [one of DPIL's associates] which was merged into DPIL in FY19 as per National Company Law Tribunal (NCLT) order dated, August 10, 2018 with effect from April 1, 2016. The company sales its plywood's, under the brand name of DURO ply and tea under the brand name of Sarda tea. The company earned ~87% of its revenue from Plywood segment.
The day-to-day affairs of the company are looked after by Mr. Sudip Chitlangia, MD). He has around three decades of business experience in plywood and tea industry.

Financials (Standalone): **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	217.56	228.48
EBITDA	3.59	10.00
PAT	-4.88	0.98
Total Debt	55.55	48.72
Tangible Net worth	43.11	77.61
EBITDA Margin (%)	1.65	4.37
PAT Margin (%)	-2.23	0.43
Overall Gearing Ratio (x)	1.29	0.63

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2018-19**	**Date(s) & Rating(s) assigned in 2017-18**	**Date(s) & Rating(s) assigned in 2016-17**
1.	Long Term Fund Based Limits	Long Term	42.74	IVR BB /Stable	IVR BB- /Stable (November 20, 2018)	-	-
2.	Long Term Non-Fund Based Limits	Short Term	37.26	IVR A4	IVR A4 (November 20, 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. 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.

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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 Fund Based Limits – Cash Credit	-	-	-	37.74	IVR BB/Stable
Long Term Fund Based Limits – Term Loan	-	-	March 2022	5.00	IVR BB/Stable
Short Term Non-Fund Based Limits –Letter of Credit	-	-	-	34.61	IVR A4
Short Term Non-Fund Based Limits- Bank Guarantee	-	-	-	2.00	IVR A4
Short Term Non-Fund Based Limits- Forward Contract	-	-	-	0.65	IVR A4