Press Release

Debjyoti Pulp And Paper Private Limited

January 01, 2021

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	14.90	IVR BB-;Stable (IVR Double B Minus with Stable Outlook)	Assigned
		14.90		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Debjyoti Pulp And Paper Private Limited (DPP) derives comfort from its experienced promoter with long track record of operation and sustained improvement in scale of operations. These rating strengths are partially offset by its small scale of operations limiting economics of scale benefits and flexibility in pricing, presence in a highly fragmented Industry and exposure to project execution risk. The rating also notes its moderate capital structure coupled with weak debt protection metrics and working capital intensive nature of its operation.

Rating Sensitivities

Upward factors

- Sharp growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Improvement in the capital structure with TOL/TNW to remain below 2x on a sustained basis

Downward Factors

- Dip in operating income and/or dip in profitability impacting the debt protection metrics
- Deterioration in working capital management affecting the liquidity.
- Delay in project execution

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoter with long track record**

The promoters have over two decades of experience in the respective industry. Mr. Joydeb Mondal (Director) is at the helm of affairs of the company with support from other two directors- Mrs. Alpana Mondal and Mr Amarjyoti Mondal and a team of experienced professionals. Furthermore, the company has started operation from 2007, thus having over a decade of operational track record.

- **Sustained improvement in scale of operations**

Total operating income of the company registered a CAGR of ~31% during FY18-FY20 with a y-o-y growth of ~14% in FY20. The growth was driven by increase in volume sales backed by increase in demand coupled with increase in realisation.

Key Rating Weaknesses

- **Small scale of operations limiting economies of scale and flexibility in pricing**
  DPP's scale of operation continues to remain small. The company has achieved a TOI of Rs.12.52 crore with an operating profit margin of 2.76% in FY20. Small scale of its operations limits the economics of scale benefits and pricing flexibility. During 8MFY21 the company earned a revenue of ~Rs.6.68 crore.

- **Highly fragmented Industry**
  The kraft paper industry is highly fragmented with presence of several organised and unorganized players. Intense competition limits the bargaining power of the companies and restricts its profitability to an extent.

- **Project execution risk**
  The company currently executing an expansion project at its existing plant in Paschim Bardhaman to increase the production of Kraft paper to 25,500 MTPA with a total project cost of Rs.14.49 crore (excluding working capital). The project cost is proposed to be financed by promoter's contribution of Rs.4.59 crore and bank financing of Rs.9.90 crore. However, financial closer is yet to be achieved. Since November 2020, the expense incurred for the project was about Rs.4.00 crore from promoter contribution and internal accruals. The project is expected to be completed by June 2021.

- **Moderate capital structure coupled with weak debt protection metrics**

The capital structure of the company has remained moderate over the years where debt equity ratio was at 1.28x and overall gearing ratio was at 1.53x as on March 31, 2020. Total indebtedness of the company as reflected by TOL/TNW remained satisfactory at 2.16x as on March 31, 2020. Further, the debt protection metrics of the company also remained moderate marked by satisfactory interest coverage ratio at 4.95x in FY20 and moderate Total debt /GCA at 8.80 years as on March 31,2020. However, the debt service coverage ratio remained depressed over the years and the company has managed to serve its debt obligation through infusion of unsecured loans by the promoters and optimisation of working capital. Further, the capital structure is expected to deteriorate in the near term due to expected inflow of debts to fund its ongoing capex.

- **Working capital intensive nature of operation**

The operation of the company is working capital intensive due to its high inventory period as the company procures bulk based on availability and price opportunity. In FY19, operating cycle was at 79 days and has further improved to 64 days in FY20 with the help of credit period offered from suppliers. The average utilisation of fund based working capital limits stood high at ~98% during the trailing 12 months ended November, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Stressed

The liquidity position of the company is expected to remain stressed marked by its tightly matched gross cash accruals as compared to its debt repayment obligations in the near term. DPP has earned gross cash accruals of Rs.1.01 crore FY20 and is expected to earn gross cash accruals in the range of ~Rs.1.30 -3.30 crore as against debt repayment obligation in the range of ~Rs.0.76-1.50 crore during FY21-23. Further, due to high utilisation of bank borrowings of ~95% during the last 12 months ended on Oct 2020, there are limited liquidity buffer.

About the Company

Kolkata based Debjyoti Pulp and Paper Private Limited (DPP) was incorporated on April, 2007 to initiate paper manufacturing business. The company has installed a plant for manufacturing of “Kraft paper” (Absorbent & Corrugated type) at Paschim Bardhaman, West Bengal, with a processing capacity of about 10,000 tonne per annum and selling its product under its own brand name of "Jyoti”.

Currently, Mr. Mr. Joydeb Mondal (Director) is at the helm of affairs of the company along with other two directors and a team of experienced personnel.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	10.90	12.52
EBITDA	1.29	1.44
PAT	0.30	0.35
Total Debt	7.65	8.93
Tangible Net worth	5.44	5.83
EBITDA Margin (%)	11.81	11.54
PAT Margin (%)	2.72	2.76
Overall Gearing Ratio (x)	1.41	1.53

*Classification as per Infomerics’ standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Term Loan*	Long Term	9.90	IVR BB- / Stable	-	-	-
2	Cash Credit*	Long Term	5.00	IVR BB- / Stable	-	-	-

**proposed*

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:

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unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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 – Term Loan*	-	-	-	9.90	IVR BB-/Stable
Long Term Fund Based Limits - Cash Credit*	-	-	-	5.00	IVR BB-/Stable

**proposed*