Dhabriya Polywood Limited

April 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	29.96 (Reduced from 32.57)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**29.96 (Rs. Twenty-Nine Crore and Ninety-Six Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The rating assigned to the bank facilities of Dhabriya Polywood Limited (DPL) continues to derive strength from experienced management with its long track record of operations, its established customer base with wider product offerings and its moderate order book. The rating, further, continues to derive strength from moderate profitability margins, moderate solvency and adequate liquidity.

These strengths, however, continue to offset to an extent on account of its modest scale of operations in a highly fragmented and competitive industry, exposure to real estate sector, vulnerability of margins to fluctuation in raw material prices and foreign exchange rate and project implementation risk.

Rating Sensitivities

Positive Factor-Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations of the company
- Sustained improvement in profitability margins with PBILDT margin of more than 15%
- Sustained improvement in capital structure with overall gearing less than 0.50 times
- Sustained improvement in liquidity with operating cycle less than 100 days

Negative factors- Factors that could lead to negative rating action/downgrade:

- Any debt-funded project undertaken by the company which results in deterioration in capital structure beyond 1 time
- Decrease in TOI to less than Rs 100 Crore owing to subdued demand from real estate sector

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with its long track record of operations

DPL was incorporated in the year 1992 and hence, has a track record of around three decades in the industry. Mr. Digvijay Dhabriya, Managing Director, holds a Bachelor degree in Mechanical Engineering and has three decades of experience in the industry. He looks after overall affairs of the company and is assisted by his son, Mr. Shreyansh Dhabriya who is also actively engaged in establishing sustainable and profitable relationship with teams and customers, dealers and distributors across the country. They are further assisted by a team of more than 350 employees who help the management in taking the strategic decisions concerning the company. In addition to this, the company has in-house fabrication and Research and development facilities for testing and fabrication of the products.

Strong customer base with wider product base and applications and moderate order book

Being present in the industry since long period of time, it has established customer base in all over India. The company offers a wide range of products which includes different types of windows and doors, false ceiling, wall panelling, decorative fencing, prefabricated buildings and cable ducts and hence, have wide user application. The company mainly supplies its finished products in India to customers who are engaged in the real estate activities, Universities, school, office buildings, laboratories and etc. Further, the customer base of the company is diversified as it has generated 19.13% of net sales in FY20 from top 10 customers (18.94% of net sales in FY19). As on February 28, 2021, DPL has an order book of Rs.60.96 crore and its subsidiary company Dynasty Modular Furnitures Private Limited (Subsidiary company) have order book of Rs.8.82 Crore thus reflecting moderate order book. The combined order book of the company stood at Rs.69.78 Crore as on February 28, 2021. The on-going projects of the company are expected to be completed within 1.5- 2 years.

Moderate profitability margins

The profitability margins of the company stood moderate marked by PBILDT margin and PAT margin of 13.46% and 3.92% respectively in FY20 as against 13.48% and 4.59% respectively in FY19. During FY20, PBILDT margin of the company remained stagnant over FY19 mainly on account of lower cost of raw material consumed which was offset by proportionately high fixed expenses as a percentage of TOI. Despite stagnant PBILDT margin, PAT margin has dipped by 67 bps over FY19 mainly due to proportionately higher depreciation and interest expenses as a percentage of TOI. With decline in PAT level, Gross cash accruals of the company has decreased by 9.26% in FY20 over FY19 and stood healthy at Rs.8.33 crore in FY20.

Moderate solvency position

In FY18-FY19, an undertaking had been given to the bank by the company that unsecured loans from promoters & relatives to the extent of Rs.7.14 crore deployed in the business shall be subordinated to bank borrowings and hence were treated as quasi equity. However, in FY20, the company repaid unsecured loans to the tune of Rs.4.47 crore resulting in decline from stipulated level and hence unsecured loans are now considered as a part of debt. On account of this, along with higher utilization of working capital bank borrowings and disbursement of new term loans which was partially offset by accretion of profits to reserves, the capital structure of the company has deteriorated, however, remained moderate with an overall gearing of 0.87 times as on March 31, 2020 as against 0.75 times as on March 31, 2019.

Further, the debt coverage indicators of the company stood moderate with total debt to gross cash accruals of 5.27 times as on March 31, 2020, deteriorated from 4.36 times as on March 31, 2019 mainly on account of decrease in GCA level and increase in total debt. The interest coverage ratio of the company stood moderate at 3.04 times in FY20, deteriorated from 3.30 times in FY19 owing to decrease in PBILDT level.

Key Rating Weaknesses

Modest scale of operations in a highly fragmented and competitive industry and exposed to cyclical real estate sector

The scale of operations of the company stood modest in a highly competitive and fragmented industry. Further, the demand of its products comes mainly from real estate sector which exposes it to cyclical real estate sector. During FY20, Total Operating Income (TOI) of the company has dipped by 7.23% over FY19 and stood at Rs.112.44 crore mainly on account of continuous decrease in sales from Plastic division due to lower demand from real estate sector. During FY20, it has generated 79.28% of net sales from plastic products division (84.88% in FY19) and remaining from modular furniture division.

Impact of COVID-19

In view of the national lockdown imposed by the government to contain the spread of virus, the factory of the company was closed from March 22, 2020. The plants located at Jaipur resumed operations from April 28, 2020 whereas the factory located at Coimbatore (Tamil Nadu) resumed its operations from June 2020 onwards. Further, the company has availed moratorium facility from March 2020 to August 2020 from three lenders and also took COVID-19 emergency funds of Rs.2.13 Crore , Rs 1.49 Crore and Rs.1.42 Crore from three different lenders. Further, the moratorium availed on interest on working capital bank borrowings of Rs.0.81 crore which was converted into FITL has been repaid by February 2021. Further, the interest on term loan was included in outstanding term loan and duration of term loan was increased by same moratorium period.

Project implementation risk

The company had undertaken two projects- one for installation of solar plants at Sitapura Unit and Malviya Nagar Unit and other for shifting of the manufacturing facility from Coimbatore (Tamil Nadu) to Bangalore. It has envisaged total cost of two projects of Rs.10.94 crore which includes Rs.3.84 crore of land for Bangalore plant (already purchased). The projects were envisaged to be funded through term loan of Rs.6.50 crore and remaining through internal accruals. Till February 28, 2021, it has incurred total cost of Rs.8.11 crore towards the projects which was funded through term loan of Rs.3.67 crore and remaining through internal accruals. The company is expected to complete the solar plant installation and make the same operational till April 2021 end whereas the second project for shifting the facility will be done till June 2021.

Vulnerability of margins to fluctuation in raw material prices and foreign exchange risk

The main raw material of the company is PVC (Polyvinyl Choride) in powder form, Calcium carbonate, additives etc. PVC powder is a derivative of crude oil. The company procures raw material from domestic market as well as import mainly from China. During FY20, the company imported 13.01% of its raw material from China. The raw material cost constitutes around 50-60% of TOI in last three financial years ended FY20. The prices of these raw materials are governed by demand-supply dynamics in the market and had shown huge fluctuations in past few years.

Further, profitability of DPL is also exposed to foreign currency fluctuation risk as it does not have any active hedging policy. However, DPL earned a foreign exchange gain of Rs.0.16 crore in FY20 as against Rs.0.22 crore in FY19.

Liquidity: Adequate

The liquidity of the company stood adequate as it has envisaged adequate cushion in GCA as against debt repayment obligation in FY21. Further, the company has generated cash flow from operating activities of Rs.12.32 crore in FY20, increased from Rs.8.37 crore owing to lower working capital gap mainly due to low inventory. The company maintains high inventory owing to nature of the business where it has to display its finished products. Further, the procurement from the customers takes time and hence, it maintains an adequate inventory level for timely supply of its products to its customers. It gives 75-90 days credit period to its customers and gets credit period of 30-45 days from suppliers. Due to this, the operating cycle of the company stood elongated at 171 days in FY20, deteriorated from 154 days in FY19 owing to high inventory holding period and collection period. The current ratio stood moderate at 1.52 times as on March 31, 2020, however, quick ratio stood below unity level at 0.85 as on March 31, 2020 due to high inventory,. It has average of maximum utilization of 98.66% and average 87.50% of its working capital bank borrowings during last 12 months ended February, 2021.

Analytical approach: Consolidated. The company has operational synergies with its subsidiaries and hence consolidated approach has been considered. List of subsidiaries has been attached as Annexure-5

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Jaipur (Rajasthan) based DPL was originally incorporated as a private Limited company in 1992 by Mr. Digvijay Dhabriya as "Dhabriya Agglomerates Private Limited" for carrying out trading and manufacturing of PVC and UPVC (Unplasticized polyvinyl chloride) based products. Later, in August 2014, it was reconstituted into public limited company and assumed its current name i.e. DPL. It got listed on stock exchange in 2014.
The company is mainly engaged in manufacturing and trading of PVC and UPVC based products. The company has three manufacturing facilities located at Sitapura and Malviya Nagar Jaipur and third one at Coimbatore, Tamil Nadu. The plant of the company is certified with International Organization for Standardization (ISO) like ISO 9001:2008 and 14001:2004 for optimum utilization of resources with better time and quality management.
Further, it has three subsidiaries mainly PGB, PPP and DMF. The plant of PGB is located at JLN Marg, Jaipur whereas plant of PPP is located at Coimbatore (Tamil Nadu) and plant of DMF is located at Malviya Industrial Area, Jaipur.

Dhabriya Polywood Limited (Consolidated)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	121.20	112.44
PBILDT	16.34	15.14
PAT	5.56	4.41
Overall gearing (times)	0.75	0.87
Interest coverage (times)	3.30	3.04

A: Audited

In 9MFY21 (Unaudited), the company has registered TOI of Rs.74.95 crore with PBILDT and PAT of Rs 9.57 Crore and 2.50 Crore respectively at consolidated level.

Dhabriya Polywood Limited (Standalone)

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	74.09	60.49
PBILDT	10.40	8.56
PAT	2.91	1.45
Overall gearing (times)	0.90	0.82
Interest coverage (times)	2.93	2.59

In 9MFY21 (Unaudited), the company has registered TOI of Rs.37.48 crore with PBILDT of Rs 4.63 Crore and net loss of Rs 0.03 Crore respectively at standalone level.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years: Please refer Annexure-2

Covenants of rated instruments/facility: Detailed explanation of the covenants of rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October 2024	12.28	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB-; Stable
Fund-based - LT-Bank Overdraft	-	-	March 2024	2.68	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	12.28	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-20)	1)CARE BBB-; Stable (14-Feb-19)	-
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-20)	1)CARE BBB-; Stable (14-Feb-19)	-
3.	Fund-based - LT-Bank Overdraft	LT	2.68	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-20)	1)CARE BBB-; Stable (14-Feb-19)	-

Annexure 3: Detailed explanation of the covenants of rated facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple

Annexure-5 List of subsidiaries has been presented below

Name of entities	% of Shareholding (As on March 31, 2020)
Polywood Green Building Systems Private Limited (PGB)	99%
Polywood Profiles Private Limited (PPP)	100%
Dynasty Modular Furnitures Private Limited (DMF)	100%

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Abhishek Jain
Group Head Contact no.- 0141-4020213/14
Group Head Email ID- abhishek.jain@careratings.com

Business Development Contact
Name: Mr. Nikhil Soni
Contact no. : +91-141-402 0213 / 14
Email ID : nikhil.soni@careratings.com

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