Duroply Industries Limited

February 07, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	44.18 (Reduced from 45.56)	CARE B-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	2.00	CARE B-; Stable / CARE A4	Reaffirmed
Short Term Bank Facilities	21.90	CARE A4	Reaffirmed

Details of facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Duroply Industries Limited (DIL) is constrained by moderate scale of operations, continuous losses incurred in the past three years albeit improvement witnessed in H1FY23, weak debt coverage indicators, and intensely competitive nature of the industry. The ratings also factor in continuation of substantial contingent liabilities, which remains sub judice. However, the aforesaid constraints are partially offset by experienced promoters with long track record of operations, moderate capital structure supported by recent equity infusion, diversified geographical presence with well-known brand in North & West India and established distribution network.

Rating Sensitivities

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

- Sustenance of improved financial performance in the next few quarters
- Sustenance of improved liquidity profile

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

- Deterioration in liquidity profile leading to delay in debt servicing.

Analytical Approach: Standalone

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and continuous losses incurred over last three years albeit improvement witnessed in H1FY23.

The company has achieved total operating income of Rs 191.63 crore in FY22 (refers to the period April 01 to March 31) as against Rs 181.67 crores in FY21. The operating income although grew by around 5.48% in FY22 as compared to FY21, it continues to remain moderate. The PBILDT margin improved from -0.45% in FY21 to 2.93% in FY22 due to better cost efficiencies and modernization capex. However, the PAT losses continue at Rs 6.31 crore against loss of Rs 2.45 crore for FY21 given high interest cost.

During the current fiscal the company has undertaken various cost saving measures and optimized the production facilities resulting in increase in productivity/efficiency. Thereby the scale improved to Rs 146.38 crore in H1FY23 (Rs 81.22 crore in H1FY22) along with PBILDT at Rs 7.91 crores and PAT of Rs 2.25 crore. Sustained improvement in financial performance will remain key monitorable.

Intense competitive nature of the industry

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. This affects the operating margin of established players such as DPIL. Plywood demand and prices are also adversely affected by availability of cheap substitutes, such as particle and mediumdensity fibre boards.

Key Rating Strengths

Experienced promoters with long track record of operations

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 Sudeep Chitlangia having

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

around three decades of experience in the plywood industry. He is well supported by other directors and a team of experienced professional.

Moderate capital structure albeit tight debt coverage indicators

The capital structure of the firm remains moderate marked by overall gearing of 1.21x as on March 31, 2022, as against 1.17x as on March 31, 2021, wherein the debt level reduced year on year however accumulated losses resulted in reduced net worth. The PBILDT interest coverage ratio stood below unity during FY22 and FY21 on account of lower operating profits.

Further the company has issued preferential equity of Rs 13 crores in July 2022 along with share warrants of Rs 15 crores. While the equity allotment money has been entirely received, the warrants issued to promoters has been paid at 25% and the balance 75% is payable in 18 months wherein each warrant will be converted to 1 equity share. This is further expected to support capital structure over the medium term.

However, the company has substantial contingent liabilities accounted under demand raised by Government authorities in respect of Taxes and Duties and contested by the Company. Any unfavourable outcome from the same can impact the financial flexibility of the company and will remain critical.

Diversified geographical presence with well-known brand in North & West India

The company has its presence mainly in North & West India, catering to around 14 cities with around Rs.180 crore sale (around 85-90% sale) being derived from 'Duro' brand (in premium plywood segment) and remaining from 'Tower' brand (in affordable plywood segment).

Established distribution network.

The company has branches in more than 14 cities spread all across the country. The company has appointed more than 700 dealers in various parts of the country who ultimately sells it to the wholesalers/end users.

Liquidity: Stretched

Liquidity is stretched marked by cash loss in the past two years against debt repayment obligations of Rs.4.32 crore in FY22. DIL has debt repayment obligations of Rs.3.51 crore during FY23 and given the H1FY23 performance (GCA of Rs 3.92 crore) the accruals are likely to be adequate for debt servicing. The average utilization of the working capital limits stood around 84% during the last 12 months ended December 31, 2022. Cash and cash equivalent balance as on 31st March 2022 stood at Rs 0.52 crore. and as on 30th September 2022 at Rs 5.90 crore.

The working capital cycle remained at 61 days in FY22 (65 days in FY21) with inventory period to 132 days in FY22 down from 143 days in FY21. The average collection days and creditors period remained around the same levels during FY22 as compared to that of FY21.

Improved performance in H1FY23 along with issue of shares and warrants leading to fund infusion of Rs.16.75 crores and balance of Rs 11.25 crore to be infused over 18 months is likely to support liquidity over the medium term.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Incorporated in 1957, by late Mr. P.D. Chitlangia, Duroply Industries Limited (DPL) started with its commercial operation as Sarda Plywood Industries Ltd (name changed in December 2018). Initially the promoters, started with the business of Tea Chest manufacturing in Jeypore, Assam. Gradually, the company ventured into Plywood business and started the commercial production in 1964. In 1996, the company forayed into the Veneer business and expanded its wings by starting a factory in Rajkot, Gujarat. Until 2021, DPL had two segments of operations, processing of tea and manufacturing of plywood out of which it hived off its tea business by way of a slump sale to focus solely on its plywood business. The company sells its plywood under the brand name of 'DURO'. The day-to-day affairs of the company are looked after by Mr. Sudeep Chitlangia, the Managing Director of the company and has around three decades of experience in the plywood industry. He is well supported by the other directors and a team of experienced professionals.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	181.67	191.63	146.38
PBILDT	-0.81	5.62	7.91
PAT	-2.45	-6.31	2.25
Overall gearing (times)	1.17	1.21	0.59
Interest coverage (times)	-0.08	0.65	2.27

A: Audited; UA: Unaudited; NA: Not Available; Ratios are classified as per CARE Ratings Standards

Status of non-cooperation with previous CRA:
Infomerics moved the ratings of Duroply Industries Limited under Issuer Not Cooperating vide Press release dated November 17, 2021.
CRISIL continues to place the ratings of Duroply Industries Limited under Issuer Not Cooperating vide press release dated November 16, 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	38.42	CARE B-; Stable
Fund-based - LT-Term Loan		-	-	30/05/2027	5.76	CARE B-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.00	CARE B-; Stable / CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	0.65	CARE A4
Non-fund-based - ST-Letter of credit		-	-	-	21.25	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.00	CARE B-; Stable / CARE A4	-	1)CARE B-; Stable / CARE A4 (23-Mar-22)	-	-
2	Fund-based - LT-Cash Credit	LT	38.42	CARE B-; Stable	-	1)CARE B-; Stable (23-Mar-22)	-	-
3	Fund-based - LT-Term Loan	LT	5.76	CARE B-; Stable	-	1)CARE B-; Stable (23-Mar-22)	-	-
4	Non-fund-based - ST-Letter of credit	ST	21.25	CARE A4	-	1)CARE A4 (23-Mar-22)	-	-
5	Non-fund-based - ST-Forward Contract	ST	0.65	CARE A4	-	1)CARE A4 (23-Mar-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Forward Contract	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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