Duroply Industries Limited (Revised)

August 21, 2023

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	43.57 (Reduced from 44.18)	CARE BB-; Stable	Revised from CARE B-; Stable
Long Term / Short Term Bank Facilities	0.98 (Reduced from 2.00)	CARE BB-; Stable / CARE A4	Revised from CARE B-; Stable / CARE A4
Short Term Bank Facilities	22.92 (Enhanced from 21.90)	CARE A4	Reaffirmed

Details of facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the Bank facilities of Duroply Industries Limited (DIL) factors in improvement in the financial performance of the company during FY23 (refers to the period of April 01 to March 31) and Q1FY24 alongwith sustained liquidity with infusion of funds in the form of equity shares and warrants. The ratings continue to factor in experienced promoters with long track record of operations, moderate capital structure albeit improving debt coverage indicators, diversified geographical and established distribution network.

However, the rating remains constrained by moderate scale of operations and intensely competitive nature of the industry. The ratings also factor in continuation of substantial contingent liabilities, which remains sub judice.

Rating Sensitivities

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

- Improvement in scale of operations above ₹450 crore along with operating margin above 6-7% on a sustained basis
- Improvement in working capital cycle.

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

- Decline in the scale of operations below ₹150 crore on a sustained basis.
- Deterioration in overall gearing ratio beyond 2x on a sustained basis

Analytical Approach: Standalone

Outlook: Stable

Stable outlook reflects that the entity is likely to sustain its financial performance and liquidity profile, with additional pending warrant of ₹8.63 crore in FY24.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations albeit improved profitability in FY23 and Q1FY24.

The company has achieved total operating income of ₹ 302.34 crore in FY23 as against ₹ 191.63 crores in FY22. The operating income although grew by around 37% in FY23 as compared to FY22, it continues to remain moderate. Further for operating profitability, internal factors, like restructuring of operations, modernization capex, restructuring of sales force and other inventory policy changes has provided support resulting in PBILDT improving from 2.93% in FY22 to 5.37% in FY23. Further in terms of net profitability a moderate shift to equity-based funds instead of debt has provided an improvement in net profitability as well wherein the PAT was reported at ₹ 5.23 crore in FY23 against losses of ₹ 6.31 crore in FY22. Also, the company reported Cash profit of ₹ 11.30 crore in FY23 against cash losses of ₹ 1.70 crore in FY22.

During the current fiscal the company has achieved revenue of ₹ 76.04 crore in Q1FY24 (₹ 71.40 crore in Q1FY23) along with PBILDT at ₹ 4.43 crores and PAT of ₹ 1.28 crore.

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

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 DIL. Plywood demand and prices are also adversely affected by availability of cheap substitutes, such as particle and medium density fibre boards.

Key Rating Strengths
Experienced promoters with long track record of operations
DIL 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 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 improving debt coverage indicators.
The capital structure of the firm remains moderate marked by overall gearing of 0.76x as on March 31, 2023, as against 1.21x as on March 31, 2022, while the gearing has improved backed by healthy profitability in FY23 along with preferential equity (₹ 13.03 crore) and warrant issue (₹ 15 crore). The equity issues are fully paid up while for warrants ₹ 6.37 crore is received in FY23 out of ₹ 15 crore (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.
The PBILDT interest coverage ratio also improved to 2.28x in FY23 against below unity during FY22 and FY21, on account of higher profitability.
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 having established distribution network
The company has diversified geographical presence, catering to more than 14 cities with around Rs.207 crore sale (around 69% of sale in FY23) being derived from 'Duro' brand (in premium plywood segment) and remaining from 'Tower' brand (in affordable plywood segment). The company has appointed more than 700 dealers in various parts of the country who ultimately sells it to the wholesalers/end users.

Liquidity: Adequate
Liquidity is adequate marked by average utilization of the working capital limits around 80% during the last 12 months ended May 31, 2023. However, the cash profit increased significantly in FY23 at ₹ 11.30 crore and remained adequate towards repayment of ₹ 3.52 crore. DIL has debt repayment obligations of ₹ 3.76 crore during FY24 and given the Q1FY24 performance (GCA of ₹ 2.63 crore) the accruals are likely to be adequate for debt servicing.
The working capital cycle remained at 48 days in FY23 (61 days in FY22) with inventory period to 95 days in FY23 down from 132 days in FY22.
Improved performance in Q1FY24 along with balance fund infusion for warrants conversion 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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Forest Products

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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	191.63	302.34	76.04
PBILDT	5.62	16.25	4.43
PAT	-6.31	5.23	1.28
Overall gearing (times)	1.21	0.76	NA
Interest coverage (times)	0.65	2.28	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics moved the ratings of Duroply Industries Limited under Issuer Not Cooperating vide Press release dated February 01, 2023.

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 BB-; Stable
Fund-based - LT-Term Loan		-	-	01/05/2027	5.15	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	0.98	CARE BB-; Stable / CARE A4

Non-fund-based - ST-Forward Contract		-	-	-	0.65	CARE A4
Non-fund-based - ST-Letter of credit		-	-	-	22.27	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 2023-2024	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.98	CARE BB-; Stable / CARE A4	-	1)CARE B-; Stable / CARE A4 (07-Feb-23)	1)CARE B-; Stable / CARE A4 (23-Mar-22)	-
2	Fund-based - LT-Cash Credit	LT	38.42	CARE BB-; Stable	-	1)CARE B-; Stable (07-Feb-23)	1)CARE B-; Stable (23-Mar-22)	-
3	Fund-based - LT-Term Loan	LT	5.15	CARE BB-; Stable	-	1)CARE B-; Stable (07-Feb-23)	1)CARE B-; Stable (23-Mar-22)	-
4	Non-fund-based - ST-Letter of credit	ST	22.27	CARE A4	-	1)CARE A4 (07-Feb-23)	1)CARE A4 (23-Mar-22)	-
5	Non-fund-based - ST-Forward Contract	ST	0.65	CARE A4	-	1)CARE A4 (07-Feb-23)	1)CARE A4 (23-Mar-22)	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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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