# Duroply Industries Limited

March 29, 2024

| Facilities | Amount (₹ crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 63.18 (Enhanced from 43.57) | CARE BB; Stable | Revised from CARE BB-; Stable |
| Long-term / Short-term bank facilities | 0.98 | CARE BB; Stable / CARE A4 | Revised from CARE BB-; Stable / CARE A4 |
| Short-term bank facilities | 30.43 (Enhanced from 22.92) | CARE A4 | Reaffirmed |

Details of facilities in Annexure-1.

## Rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Duroply Industries Limited (DIL) takes into account the fund received by the company in the form of equity shares and warrants to the tune of Rs.44 crore (Rs.29 crore received in March 2024 and balance Rs.15 crore to be received within next 18 months) which is expected to lead to improvement in the capital structure and liquidity profile of the company going forward.

The ratings continue to be constrained by its modest scale of operations in FY23 (refers to the period April 01 to March 31) with moderation in operating margin in 9MFY24 and intense competitive nature of the industry.

The constraints are partially offset by its experienced promoters with long track record of operations and diversified geographical presence having established distribution network and improvement in debt coverage indicators.

The ratings also factor in continuation of substantial contingent liabilities, which remains sub judice.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Improvement in scale of operations above Rs.450 crore along with operating margins above 6% on a sustained basis.
- Improvement in working capital cycle.
- Improvement in debt coverage indicators with TDGCA going below 5x on a sustained basis.

### Negative factors

- Decline in the scale of operations below Rs.250 crore.
- Deterioration in overall gearing ratio beyond 0.85x 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.

## Detailed description of the key rating drivers:

### Key weaknesses

**Modest scale of operations in FY23 with moderation in operating margin in 9MFY24**

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 58% 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.

The scale of operation continues to remain moderate with TOI of Rs.238.96 crore in 9MFY24. The PBILDT margin witnessed moderation in 9MFY24 to 4.50% (5.04% in 9MFY23) and the company earned PAT of Rs.2.24 crore in 9MFY24 compared with Rs.2.97 crore in 9MFY23.

[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 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 Executive Chairman, 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.

**Diversified geographical presence having established distribution network**
The company has diversified geographical presence, catering to more than 14 cities with around 70%-80% being derived from 'Duro' brand (in premium plywood segment) and remaining from 'Tower' brand (in affordable plywood segment). The company has appointed 980 dealers in various parts of the country who ultimately sells it to the wholesalers/end users.

**Improvement in capital structure and debt coverage indicators**
The capital structure of the company improved marked by overall gearing ratio of 0.76x as on March 31, 2023 as against 1.21x as on March 31, 2022 on account of accretion of profits to reserve and securities premium received on the issue of equity and conversion of warrants into equity shares in FY23 improving the net worth of the company. The same further improved to 0.73x as on December 31, 2023. The company received funds in the form of equity share capital and share warrants on preferential issue basis amounting to Rs.28.90 crore in March 2024 which further will improve the capital structure of the company.
The debt coverage indicator of the company also witnessed improvement with TDGCA of 5.94x as on March 31, 2023 vis-à-vis negative 45.26x as on March 31, 2022, however, the same continues to remain moderate. The PBILDT interest coverage ratio stood at 1.97x in 9MFY24 compared with 2.23x in 9MFY23.
The ratings also take note of the company having 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.

## Liquidity: Adequate

Liquidity is adequate marked by cash profit of Rs.11.30 crore against debt repayment obligations of Rs.3.52 crore in FY23. In FY24, the company has debt repayment obligation of Rs.3.50 crore against which the company is expected to generate sufficient cash accruals (already generated cash accruals of Rs.5.96 crore in 9MFY24). The fund-based working capital limit utilisation stood at around 88% during the last 10 months period ended January 2024. Further, the company received proceeds against share warrants amounting to Rs.6.61 crore in Q3FY24 and another Rs.28.90 crore by issue of equity shares and share warrants on preferential issue basis in March 2024 which is expected to provide further liquidity comfort.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

## 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, Executive Chairman 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) | 9MFY24 (UA) |
|---|---|---|---|
| Total operating income | 191.63 | 302.34 | 238.96 |
| PBILDT | 5.62 | 16.25 | 10.75 |
| PAT | -6.31 | 5.23 | 2.24 |
| Overall gearing (times) | 1.21 | 0.76 | 0.73 |
| Interest coverage (times) | 0.65 | 2.28 | 1.97 |

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Infomerics continues the ratings of Duroply Industries Limited under Issuer Not Cooperating vide Press release dated March 18, 2024.

**Any other information:** Not Applicable

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

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

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 47.00 | CARE BB; Stable |
| Fund-based - LT-Term Loan | | - | - | January 2032 | 16.18 | CARE BB; Stable |
| Non-fund-based - LT/ ST-Bank Guarantee | | - | - | - | 0.98 | CARE BB; Stable / CARE A4 |
| Non-fund-based - ST-Forward Contract | | - | - | - | 0.74 | CARE A4 |
| Non-fund-based - ST-Letter of credit | | - | - | - | 29.69 | 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 BB-; Stable / CARE A4 (21-Aug-23) | 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 | 47.00 | CARE BB; Stable | 1)CARE BB-; Stable (21-Aug-23) | 1)CARE B-; Stable (07-Feb-23) | 1)CARE B-; Stable (23-Mar-22) | - |
| 3 | Fund-based - LT-Term Loan | LT | 16.18 | CARE BB; Stable | 1)CARE BB-; Stable (21-Aug-23) | 1)CARE B-; Stable (07-Feb-23) | 1)CARE B-; Stable (23-Mar-22) | - |
| 4 | Non-fund-based - ST-Letter of credit | ST | 29.69 | CARE A4 | 1)CARE A4 (21-Aug-23) | 1)CARE A4 (07-Feb-23) | 1)CARE A4 (23-Mar-22) | - |
| 5 | Non-fund-based - ST-Forward Contract | ST | 0.74 | CARE A4 | 1)CARE A4 (21-Aug-23) | 1)CARE A4 (07-Feb-23) | 1)CARE A4 (23-Mar-22) | - |

LT: Long term; ST: Short term; LT/ST: 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 |
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**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.

**Contact us**

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