

DJS Printers Private Limited

January 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.00	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (Single B Plus ; Outlook: Stable / A Four)
Long Term Bank Facilities	13.00	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable)

Details of instruments/facilities in Annexure-1.

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of DJS Printers Private Limited (DJS) and in line with the extant SEBI guidelines, CARE downgraded the rating(s) of bank facilities of the company to 'CARE B+;Stable/ CARE A4; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the rating(s) stand at 'CARE BB; Stable.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of DJS Printers Private Limited (DJS) factors in experienced management coupled with long track record of operations, reputed customer base, moderate profitability margins, and moderate operating cycle. The rating however remains constrained by modest though fluctuating scale of operations, leveraged capital structure and weak debt coverage indicators. Further, the rating is also constrained by susceptibility of profit margins to volatile raw material prices, foreign exchange fluctuation risk and fragmented and competitive nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent increase in scale of operations as marked by total operating income of above Rs.280.00 crore.
- Improvement in the capital structure as marked by overall gearing ratio of below 2.50x.

Negative factors

- Decline in profitability margins as marked by PBILDT margin below 7.00% respectively on sustained basis.
- Continued elongation in the operating cycle of the company beyond 125 days.

Analytical approach: Standalone

Key strengths

Experienced management coupled with long track record of operations

The company is currently being managed by Mr. Navdeep Singh, Mr. Jasbir Singh and Mr. Samardeep Singh. Mr. Navdeep Singh is a postgraduate and holds more than a decade of experience in packaging industry through his association with DJS. Mr. Jasbir Singh and Mr. Samardeep Singh look after the day-to-day operations of the company. Both of them are graduates by qualification and holds nearly 37 years and 5 years of experience respectively in packaging industry through their association with DJS and associate concern. Further, the managerial decisions are taken by Mr. Sarabjit Singh, who has experience of more than three decades in manufacturing and printing of packaging material through his association with DJS and also through sister concern namely Sangat Printers Private Limited which is also engaged in printing of papers for packaging.

Reputed customer base

DJS revenues are primarily derived from the supply of packaging material such as corrugated boxes, cartoon rigid boxes, paper packaging, glasses and bucket packaging to the fast-food companies through franchisee namely Kentucky Fried Chicken (KFC), Pizza Hut, Burger King, MC Donald's, subway ACT-II, and Tops etc. located PAN India. The reputed customer base reduces the counterparty risk to some extent. The association with reputed customer results in higher visibility and increased presence in the market. Further, in light of the satisfactory work, the company has managed to get repeated orders from its customers. Association

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

with reputed customers coupled with repeated long orders enhances the image of the company in the market regarding product quality.

Moderate profitability margins

The profitability margins of the company as marked by PBILDT margin stood moderate though decline to 7.81% during FY22 as against 12.07% during FY21. The decline in PBILDT margin is on account of increase in cost of raw material which the company was unable to pass on to the customers completely. Further, PAT margin of the company has also declined to 1.70% during FY22 as against 1.82% during FY21 on account of decline in PBILDT margin. The profitability margin of the company is expected to remain at in the range of 7%-8% as envisaged.

Moderate operating cycle

The company deals in large product portfolio, they maintain adequate level of inventory in the form of raw material and semi-finished product for smooth functioning of its manufacturing process. The operating cycle improved to 57 days in FY22 as compared to 93 days in FY21 on account improvement in the average collection days and inventory days. The company maintains inventory in form of finished goods to meet the immediate requirement of its customers. Accordingly, the average inventory period remains moderate at 76 days during FY22. Further, the company receives credit period of around three to four months from its supplier, as they pay to their suppliers once they receive payments from its customers. DJS's majorly rely on external borrowings to fund its day-do-day operations, thereby resulting into 80% utilization of average working capital limits for past 12 months ended December 31, 2022.

Key weaknesses

Modest though fluctuating scale of operations

DJS Printers Private Limited (DJS) scale of operations stood modest as evident from total operating income (TOI) of Rs. 160.74 crore and gross cash accruals of Rs. 6.60 crore respectively, during FY22 as against Rs. 85.35 crore and Rs.4.75 crore respectively, during FY21. Nevertheless, the scale remains modest; it limits the company's financial flexibility in times of stress. Moreover, DJS's scale of operations remained fluctuating for the period FY18-FY22 (refers to the period from April 1 to March 31). TOI registered improvement in FY19 and thereafter declined in FY21. In FY22 the scale of operations has shown improvement by 88.33% from FY21 mainly on account of higher intake from the existing clients coupled with addition of new clients. During, 9MFY23 (refer to the period from April 01, 2022 to December 31, 2022; based on provisional result), total operating income of the company stood at Rs. 190.00 crore. Further, the company is expecting to achieve total operating income of Rs. 250.00 crore in FY23 as envisaged on account of repeated orders from the existing customers.

Leveraged capital structure and weak debt coverage indicators

As on March 31, 2022, the debt profile of the company comprises of term loan of Rs. 13.07 crore, term loan from financial institutions of Rs. 13.22 crore, unsecured loan of Rs. 4.69 crore and utilised working capital limit of Rs. 15.08 crore. The capital structure of the company stood leveraged though marginally improved as marked by overall gearing ratio stood at 3.01x as on March 31, 2022 as compared to 3.84x as on March 31, 2021. The marginal improvement in gearing is on account of decline in overall debt level due to regular repayment.

Further, on account high debt levels, the debt coverage indicators of the company remain weak as marked by interest coverage ratio and total debt to GCA stood at 2.68x and 6.97x respectively in FY22 as against 2.00x and 10.17x respectively in FY21.

Susceptibility of profit margins to volatile raw material prices

DJS's major raw material comprises of paper for manufacturing paper packaging, glasses, bucket packaging, corrugated boxes, liners and duplex cartons which the company procures from domestic and international market. The raw material prices constitute around 15.76% of the total production cost the company. Since the prices of the wastepaper is primarily driven by international demand and supply scenario led to volatility in the prices. On account of which the company's operating margins have been fluctuating during the past five years.

Foreign exchange fluctuation risk

The business operations of DJS involve both exports of products like folding cartons, liner carton, take away paper packaging, wrap and pouches, food bucket, etc and imports raw material like paper, duplex board, etc resulting in sales realization and cash outflow in foreign currency. The company exports its product in overseas market primarily in middle east countries and export contribution to total sales stood around 27.79% for FY22 (PY:30.68%). Further, during FY22, company has booked profit of Rs. 0.48 crore (PY: 0.31 crore) from foreign exchange fluctuations. Though, the foreign exchange fluctuation risk is partially mitigated through a natural hedge, however, in absence of any hedging policies adopted by the company, DJS is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accrual.

Fragmented and competitive nature of industry

DJS operates in a highly fragmented industry marked by the presence of a large number of players in the unorganized sector. The industry is characterized by low entry barriers due to low technological inputs and easy availability of standardized machinery for the production. This further leads to high competition among the various players and low bargaining power with suppliers. Since the company's client base consists of established players, DJS's pricing power is restricted with limited ability to pass on any increase in input cost due to intense competition.

Liquidity: Stretched

The liquidity position of the company remained stretched as characterized by moderately high utilisation of working capital limits of around 80% for the past twelve-month ending December 31, 2022. The company also has low unencumbered cash and bank balance which stood at Rs. 0.43 crore as on March 31, 2022. Further, the company has reported gross cash accruals to the extent of Rs.6.60 crore during FY22 and is expected to generate envisage GCA of Rs.7.50 crore for FY23 against repayment obligations of Rs. 5.25 crore in the same year.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Paper Industry](#)

About the company

Delhi based, DJS Printers Private Limited (DJS) was incorporated in May 1984 by Mr. Sarabjit Singh. Currently the company is being managed by Mr. Navdeep Singh, Mr. Jasbir Singh and Mr. Samardeep Singh.

The company is engaged in the manufacturing of wide varieties of packaging materials for food and drink such as Board Packaging (folding carton boxes, clamshell and tray cartons, liner cartons), Paper Packaging (take away paper packaging, wrap and pouches), Glass Bucket Packaging (food bucket and hot and cold beverage cup), and Corrugated Packaging and also printing on the boxes manufactured. The company has two manufacturing units in Manesar with an installed capacity of 12,000 metric tons per annum with 80%-90% utilization. The raw material for the company includes majorly wastepaper, dyes, duplex board etc. which they procured from various dealers as well as manufacturers based in Haryana, Uttar Pradesh and Delhi. Also, the company import 40% raw material in the form of paper from Germany. The company sells its products to various manufacturing as well as fast food companies through franchise namely Kentucky Fried Chicken (KFC), Pizza Hut, Burger King, ACT-II, and Tops etc. located PAN India. Also, the company exports to KFC based in United Kingdom, Sri Lanka, Uganda, Kenya. In FY22, the exports amounted to 27.79% of the total sales.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)*
Total operating income	85.35	160.74	173.76
PBILDT	10.30	12.56	11.59
PAT	1.56	2.74	3.47
Overall gearing (times)	3.84	3.01	2.12
Interest coverage (times)	2.00	2.68	4.32

A: Audited; Prov.; Provisional

*Refer to the period from April 01, 2022 to December 31, 2022

Status of non-cooperation with previous CRA: Brickwork has conducted the review and has classified DJS Printers Private Limited as "Not Cooperating" vide its press release dated December 22, 2022.

Any other information: Not Available

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.50	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	June 2025	8.50	CARE BB; Stable
Fund-based - LT-Working Capital Limits		-	-	-	12.00	CARE BB; Stable

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	Fund-based - LT-Term Loan	LT	8.50	CARE BB; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Mar-22)	1)CARE BB; Negative (26-Mar-21)	1)CARE BB; Stable (03-Mar-20)
2	Fund-based - LT-Cash Credit	LT	4.50	CARE BB; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (03-Mar-22)	1)CARE BB; Negative (26-Mar-21)	1)CARE BB; Stable (03-Mar-20)
3	Fund-based - LT-Working Capital Limits	LT	12.00	CARE BB; Stable	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (03-Mar-22)	1)CARE BB; Negative / CARE A4 (26-Mar-21)	1)CARE BB; Stable / CARE A4 (03-Mar-20)

*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	Fund-based - LT-Working Capital Limits	Simple

Annexure-5: Lender detailsTo 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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