Duroply Industries Limited

March 23, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	45.56	CARE B-; Stable (Single B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	2.00	CARE B-; Stable / CARE A4 (Single B Minus; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	21.90	CARE A4 (A Four)	Assigned
Total Bank Facilities	**69.46 (Rs. Sixty-Nine Crore and Forty-Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Duroply Industries Limited (DIL) is constrained by past delays in debt servicing, moderate scale of operations with low operating profitability margins, continuous losses incurred in the past, tight debt coverage indicators, elongation in working capital cycle and intense competitive nature of the industry. However, the aforesaid constraints are partially offset by experienced promoters with long track record of operations, moderate capital structure, 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:

- Improvement in scale of operations with operating margins above 6% on a sustained basis
- Substantial equity infusion

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

- Any delay in debt servicing

Detailed description of the key rating drivers

Key Rating Weaknesses

Past delays in debt servicing

During the second wave of Covid-19 in May 21, there were devolvement in Letter of Credit's leading to overdrawals in cash credit account (overdrawals in Cash Credit account till Aug 16, 2021 for one of the lenders). However, there has been no delays in debt servicing since Dec 2021 and the same has been confirmed by the lenders.

Moderate scale of operations with low operating profitability margins and continuous losses incurred in the past

The company has achieved total operating income in the range of Rs.180-230 crore during FY19-FY21 period. The operating income de-grew by around 12% in FY21 as compared to FY20 amid covid-19 hit year. The PBILDT margin has been on a declining trend from 4.65% in FY19 to 0.41% in FY21 due to lower spread of fixed overheads coupled with lower cost efficiencies being derived as compared to other industry peers. In line with dip with PBIDT and higher interest cost, the company incurred losses in FY20 & FY21.

The company has achieved PBIDT of Rs.4.10 crore on total operating income of Rs.137.09 crore during 9MFY22. The company has undertaken various cost saving measures like reduction in labour work force and optimized the production facilities resulting in increase in productivity/efficiency by 10-15%. The impact of these measures on profitability is expected to get reflected from Q4FY22 onwards.

Elongation in working capital cycle

The working capital cycle elongated to 65 days in FY21 from 56 days in FY20 due to dip in sales in FY21 increase in inventory period to 143 days in FY21 from 133 days in FY20. The average collection days and creditors period remained around the same levels during FY21 as compared to that of FY20.

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 medium-density 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

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

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 tight debt coverage indicators
The capital structure of the firm remains moderate marked by overall gearing of 1.17x as on March 31, 2021 as against 1.19x as on March 31, 2020 on account of decrease in debt. The PBILDT interest coverage ratio stood below unity during FY20 and FY21 on account of lower operating profits. In FY20 & FY21, the interest expense was serviced through funds received from sale of tea business and availment of additional term loans/covid loans (Rs.8.46 crore Covid loan availed in FY21). The company has converted Rs.9.80 crore of its Cash Credit limits to FCNR loan on Aug 31, 2021 which has resulted in substantial reduction in interest cost. The total outside liabilities to Net worth marginally deteriorated to 1.93x as on March 31 2021 as against 1.87x as on March 31, 2020.

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 negative cash accruals against debt repayment obligations of Rs.2.84 crore in FY21. The company had availed covid loan of around Rs.8.46 crore during FY21 to fund losses and for making debt repayment. DIL has debt repayment obligations of Rs.4.32 crore during FY22 out of which Rs.4.03 crore has already been paid. The same has been funded through part receipt of sale proceeds of tea business in April 2021 and availment of Covid Loan of Rs.1.51 crore in November 2021. The average utilization of the working capital limits stood around 95% during the last 12 months ended February 28 2022.

Analytical approach: Standalone

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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	207.27	183.23	137.09
PBILDT	6.75	0.75	4.10
PAT	-4.08	-2.45	-2.72
Overall gearing (times)	1.19	1.17	1.08
Interest coverage (times)	0.88	0.07	0.62

A: Audited; P: Provisional

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 August 26, 2021.

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	2.00	CARE B-; Stable / CARE A4
Fund-based - LT-Cash Credit	-	-	-	-	38.42	CARE B-; Stable
Fund-based - LT-Term Loan	-	-	-	May 2027	7.14	CARE B-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	21.25	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	-	0.65	CARE A4

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.00	CARE B-; Stable / CARE A4				
2	Fund-based - LT-Cash Credit	LT	38.42	CARE B-; Stable				
3	Fund-based - LT-Term Loan	LT	7.14	CARE B-; Stable				
4	Non-fund-based - ST-Letter of credit	ST	21.25	CARE A4				
5	Non-fund-based - ST-Forward Contract	ST	0.65	CARE A4				

* Long Term / Short Term

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

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

Sr. No	Name of 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: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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