

DSG Papers Private Limited

March 30, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	42.40	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	2.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus ISSUER NOT COOPERATING*)	Revised from CARE A3 (A Three) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	44.40 (Rs. Forty-Four Crore and Forty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd. has been seeking information from DSG Papers Private Limited (DPPL) to monitor the ratings vide e-mail communications/letters dated March 23, 2022, March 25, 2022 and March 25, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on DPPL's bank facilities will now be denoted as **CARE BB+; Stable/CARE A4+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of the deterioration in operational and financial performance during FY21 (refers to the period from April 1 to March 31) characterised by declining scale of operations and losses reported at net level. The ratings continue to be constrained by susceptibility of margins to volatility in raw material prices and presence in a highly competitive and fragmented industry.

The revision in ratings also factors in non-cooperation by DPPL and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on March 31, 2021 the following were the rating strengths and weaknesses updated based on best available information:

Key Rating Weaknesses

Modest scale of operations

During FY21, the total operating income of the company witnessed a decline of 35% majorly on account of fall in sales realization on the back of subdued demand in the sector. The total income of DSG decreased from Rs. 156.67 crores in FY20 to Rs. 101.08 crores in FY21. Additionally, the prices of waste paper; key raw material is experiencing an upward trend leading to increase in cost of raw material of the company from 56% of net sales in FY20 to 66% of net sales in FY21. Consequently, the PBILDT margin of the company declined to 4.06% in FY21 from 8.87% in FY20. The same streamed down to net profit as the company reported net loss of Rs. 5.41 crores in FY21 as against net profit of Rs. 2.97 crores in previous year.

Leverage capital structure characterised by debt-funded capex incurred in the past

As on March 31, 2021 the total debt of the company increased to Rs. 49.60 crores from Rs. 34.57 crores on previous balance sheet date largely due to increase in term loan which went up to Rs. 19.39 crores as on March 31, 2021 from Rs. 8.93 crores. In last two fiscals ending FY21, the increase in term loan was due to capex incurred in the past for installation of film press and a boiler. The increase in debt with simultaneous decline in net worth owing to losses has led to deterioration in overall gearing to 1.13x as on March 31, 2021 from 0.70x as on March 31, 2020. The debt coverage indicators have also declined on account of decline in profitability.

Susceptibility of margins to volatility in the prices of raw material

DPPL uses waste paper which is purchased from the domestic markets as well as imported from USA, Australia and Dubai. Raw material consumption is the largest cost component for DPPL, constituting ~66% of net sales in FY21 (PY: 56%). The prices of

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

domestic waste paper are volatile and move in tandem with the international waste paper prices. Therefore, the operating profitability of the company remains highly susceptible to any volatility in raw material prices.

Highly competitive and fragmented nature of industry

The paper industry is highly fragmented in nature with stiff competition from large number of organized as well as unorganized players which leads to intense pricing pressure and a high level of competition. The entry barrier to the industry is low resulting in stiff competition in the industry due to presence of large number of well-established players and unorganized small units limiting the pricing power of the manufacturers and putting further pressure on profitability.

Key Rating Strengths

Experienced promoters with long track record of operations

DPPL has been in the paper industry for more than a decade which has helped it to establish relationship with both its suppliers and customers. Mr. Manoj Kumar (Promoter) has an overall experience of more than two-and-a-half decades and has been associated with the company since its inception. Before being associated with the DPPL, he was working with Vishal Papertech (India) Limited. The other director, Mrs. Neeru Gupta has an experience more than a decade in the industry through her association with DPPL since inception.

Well established distributor network

DPPL is engaged in manufacturing of writing and printing uncut paper rolls, MG paper and tissue paper which are largely sold to publishers, through a network of distributors all across India, mainly in Delhi, Maharashtra, West Bengal, Gujarat, Uttarakhand and Jammu and Kashmir. DPPL has also been exporting its products to Nepal for the last 8 years. The raw material (waste paper and chemicals) is partly imported from the USA, Australia and Dubai and majorly procured domestically mainly from suppliers based in Delhi, Madhya Pradesh and Maharashtra. The imported raw material cost stood at 16.70% of the total raw material cost in FY21 (PY: 12.56%). The company does not employ any hedging mechanism, though it has reported an additional income of Rs.0.05 cr. in FY21 (Rs.0.10 cr. in FY20) on account of favourable fluctuation in the foreign currency.

Liquidity: Stretched

The liquidity position of DSG is marked by repayment obligations of Rs. 5.18 crores as against projected cash accruals of Rs. ~8 crores. The working capital requirements of the company are high as evident from working capital cycle of 121 days in FY21 which were met largely through bank borrowings resulting in average utilization of sanction limits at around 95% for a period of last twelve months ended January 2022. The company had modest cash and bank balance of Rs. 1.54 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Paper Industry](#)

About the Company

DPPL was incorporated as a private limited company in March-2005 by Mr. Suraj Bhan and his son Mr. Manoj Kumar. The company is engaged in the manufacturing of writing and printing paper, tissue paper and MG (machine glazed) poster paper at its manufacturing facility located in Patiala (Punjab). The company has an installed capacity of 55000 MTPA as on March 31, 2021

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	156.67	101.08	143.73
PBILDT	13.90	4.10	8.63
PAT	2.97	-5.41	-0.49
Overall gearing (times)	0.70	1.13	1.20
Interest coverage (times)	5.21	1.22	3.01

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

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
Fund-based - LT-Term Loan		-	-	March 2029	19.40	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit		-	-	-	23.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	2.00	CARE A4+; ISSUER NOT COOPERATING*

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	Fund-based - LT-Term Loan	LT	19.40	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (31-Mar-21)	1)CARE BBB-; Stable (23-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	-
2	Fund-based - LT-Cash Credit	LT	23.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Stable (31-Mar-21)	1)CARE BBB-; Stable (23-Mar-20) 2)CARE BBB-; Stable (04-Apr-19)	-
3	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A3 (31-Mar-21)	1)CARE A3 (23-Mar-20) 2)CARE A3 (04-Apr-19)	-

* 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 - ST-BG/LC	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.

Contact us

Media Contact

Name: Mradul Mishra
 Contact no.: +91-22-6754 3573
 Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Puneet Kansal
 Contact no.: +91-11-4533 3225
 Email ID: puneet.kansal@careedge.in

Relationship Contact

Name: Swati Agrawal
 Contact no.: +91-11-4533 3200
 Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**