Delta Paper Mills Limited (Revised)

July 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	125.00	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB-; Stable; Issuer Not Cooperating (Double B Minus; Outlook: Stable; Issuer Not Cooperating)
Short term Bank Facilities	20.00	CARE A4 (A Four)	Reaffirmed and removed from Issuer Not Cooperating
Total Facilities	**145.00 (Rs. One hundred and forty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Delta Paper Mills Limited (DPML) are constrained by leveraged capital structure, risk associated with ongoing debt funded capex, high reliance on bank borrowings on account of stretched liquidity and cyclical nature of paper industry. The ratings are, however, underpinned by improved financial performance of the company during FY19 (refers to period April 01 to March 31) and 9MFY20 (refers to period April 01 to December 31), experienced and resourceful promoters with established track record and association of the company with various State Govt. Text Book Corporations along with comfortable order book position in hand.

Rating sensitivities

Positive factors

- Increase in the scale of operations along with improvement in the PBILDT margin above 10% on a sustained basis.
- To maintain operating cycle less than 60 days on sustained basis.

Negative factors

- Any unexpected withdrawal of unsecured loans or redemption of redeemable preference shares by the promoters leading to strain on liquidity position of the company.
- High dependence on fund based limits resulting in limited liquidity cushion.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leverage capital structure and coverage indicators

The debt profile of the company consists of preference shares (Rs.46.70), working capital borrowings (Rs.58.85) and unsecured loans (Rs.15.56). The overall gearing of the company has remained leveraged at 5.60x as on March 31, 2019 albeit improved from 7.64x as on March 31, 2018 due to accretion of profit to the networth. The company does not have any term debt, however major portion of its debt profile comprises of redeemable preference shares and unsecured loans from promoters and related parties due to which the overall gearing is high. The PBILDT interest coverage ratio of the company has improved to 2.18x during FY19 from 1.54x during FY18 due to increase in the PBILDT level. The other debt coverage indicators such as total debt to GCA and total debt to PBILDT stood high at 10.48x and 5.86x during FY19 respectively.

Risk associated with ongoing debt funded capex

DPML has undertaken capex for installation of a new washing and bleaching unit at its existing plant in Vendra, Andhra Pradesh. The said capex is being undertaken with a total project outlay of Rs.94.32 crore, which will be majorly debt funded, although yet to be tied up. Thus if the company is able to achieve financial tie up for the project, then the debt levels are expected to further increase going forward.

Working capital intensive nature of operations

During FY19, the company has reduced its reliance on credit purchase resulting in increased reliance on working capital borrowings. The working capital cycle of the company stood elongated to 73 days during FY19 (55 days during FY18) due to reduction in average creditor days to 104 days during FY18 (82 days during FY19). The company maintains high raw material inventory as the key raw material, Bagasse, is seasonal in nature. The average inventory days stood at 97 days during FY19 (101 days during FY18). The company derives about 70% of its revenue from sale of paper to various State Government Text

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Book Corporations. The same has resulted in elongated collection period for the company. In order to fund the working capital gap, the company relies on bank borrowings for its working capital requirements. The average maximum utilization of fund based limits during the past 12 months ending March, 2020 remained high at 97.66%.

Cyclical nature of the paper and pulp industry

The paper industry has a positive correlation to economic development and lower GDP growth could affect business fortunes of the players in the industry. The demand for paper in India depends upon government spending on literacy and general economic activity in the country. However, DPML derives its majority of revenue from sale of paper to government text book corporations which helps the company maintain stable sales volume.

Key Rating Strengths

Experienced and resourceful promoters with establish track record

DPML is a part of Laila Group which has interests in nutraceuticals (M/s. Laila Nutraceuticals and M/s. Fysolate Technologies), herbal extracts (M/s. Chemiloids Life Sciences (P) Ltd.), education institutions and hotel businesses (Laila Hotels & Resorts Private Limited). Mr. G.V.K. Ranga Raju is the Managing Director of the company and is well experienced and highly resourceful. The promoters of the company have been extending financial support as and when required in the form of unsecured loans and preference shares.

Improved financial performance during FY19

The total operating income of the company increased by 16.72% from Rs. 214.47 crore during FY18 to Rs. 250.34 crore during FY19 due to increase in the level of production. The PBILDT level of the company increased by 43.52% from Rs. 14.59 crore during FY18 to Rs. 20.94 crore during FY19 on account of operational efficiency. Further, the company registered profit of Rs.5.63 crore during FY19 as against net loss of Rs.5.34 crore during FY18. The PBILDT Margin of the company improved by 156 bps to 8.36% during FY19 (6.80% during FY18) due to increase in the scale of operations. The PAT margin of the company is 2.25% during FY19 (-2.49% during FY18). Furthermore, the company has attained TOI of Rs.164.61 crore and PBT of Rs.4.16 crore during 9MFY20.

Association with various State Govt. Text Book Corporations

DPML, being in the paper manufacturing industry for more than four decades and is managed by eminent promoters is able to garner orders from various State Govt. Text Book Corporations. The company executes orders for State Govt. of Maharashtra, Telangana, Andhra Pradesh, Orissa and Kerala. During FY19, the company generated about 70% of its sales from the execution of the orders from various State Govt. Text Book Corporations and remaining 30% is from sales at open market.

Comfortable order book position

The company has a comfortable order book in hand amounting Rs. 186.41 crore (approximately around 25000 tonnes) as on March 31, 2020 from various State Govt. Text Book Corporation and open market. These orders are to be executed in FY20-21, thus providing revenue visibility for short term.

Liquidity- Stretched

The liquidity position of the company is stretched considering highly utilized working capital limits and the current ratio of the company is at 1.00x as on March 31, 2019. During FY19, the GCA of the company improved to Rs.5.63 crore (Rs.0.63 crore during FY18) due to increase in the scale of operations and operational efficiency. The company has only interest obligations on working capital limits. Furthermore, the company has availed moratorium for interest payment of fund based working capital limits for six month period from March 2020 to August 2020 and also they have availed Covid Emergency line of Credit for Rs.6.00 crore. Considering the performance of the company during FY19 and 9MFY20 and the estimated performance of the company during FY21, it is expected that the company will be able to meet the interest obligations from generated cash accruals. Further the promoters of the company are also resourceful and infusing funds as and when required.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Rating Outlook
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios - Non-Financial Sector

About the Company

Delta Paper Mills Limited (DPML) was established in the year 1975 and situated at Vendra Village, West Godavari Dist., Andhra Pradesh. In the year 1998, Mr. Gokaraju Ganga Raju has taken over the management of the company and has been running it successfully since then. The company manufactures writing and printing papers of different cultural varieties such as Creamwove, White Printing, Azurewove, Azurelaid, Duplicating etc. The installed capacity of the company stood at 51,100 MT/annum. DPML caters to Govt. Text Book Corporations of Andhra Pradesh, Telangana, Maharashtra, Odisha, Tamil Nadu, Kerala, Madhya Pradesh, Assam etc.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	214.47	250.34
PBILDT	14.59	20.94
PAT	-5.34	5.63
Overall gearing (times)	7.64	5.60
Interest coverage (times)	1.54	2.18

A: Audited

Status of non-cooperation with previous CRA: CRISIL has placed the ratings of DPML under INC vide its PR dated February 13, 2020; due to inadequate information and lack of management cooperation.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	42.00	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	20.00	CARE A4
Fund-based - LT-Bank Overdraft	-	-	-	18.00	CARE BB; Stable
Fund-based - LT-Term Loan	-	-	Proposed	65.00	CARE BB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	42.00	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE BB-; Stable (04-Apr-19)	-	-
2.	Non-fund-based - ST-BG/LC	ST	20.00	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE A4 (04-Apr-19)	-	-
3.	Fund-based - LT-Bank Overdraft	LT	18.00	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE BB-; Stable (04-Apr-19)	-	-
4.	Fund-based - LT-Term Loan	LT	65.00	CARE BB; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (18-Mar-20) 2)CARE BB-; Stable (04-Apr-19)	-	-

**Issuer did not cooperate; Based on best available information*

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact

Name- Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name – D Naveen Kumar
Group Head Contact no-040-67937416
Group Head Email ID - dnaveen.kumar@careratings.com

Relationship Contact

Name: Ramesh Bob
Contact no. : +91 90520 00521
Email ID: ramesh.bob@careratings.com

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