# Dhabriya Polywood Limited (Revised)

March 31, 2020

**Rating**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 32.57 | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | **Reaffirmed** |
| **Total** | **32.57 (Rupees Thirty two crore and fifty-seven lakh Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the bank facilities of Dhabriya Polywood Limited (DPL) continues to favourably take into account experienced management with its long track record of operations, strong customer base with wider product base as well as wide applications in user industries and moderate order book position. The rating, further, continues to derive strength from moderate profitability margins as well as solvency position and adequate liquidity position.

The rating, however, continues to remain constrained on account of its modest scale of operations, vulnerability of margins to fluctuation in the raw material prices and foreign exchange rate, its presence in a highly fragmented and competitive industry, exposure to cyclical real estate sector and project implementation risk associated with it.

**Rating sensitivities**

*Positive Factors*

- Sustained increase in scale of operations of the company to more than Rs.150 crore
- Sustained Improvement in profitability margins with PBILDT margin of more than 15%
- Sustained improvement in capital structure with overall gearing less than 0.50 times
- Sustained improvement in liquidity position with operating cycle less than 100 days

*Negative factors*

- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond 1 times
- PBILDT margin less than 10% due to foreign exchange rate fluctuation and volatile raw material prices
- Decrease in TOI to less than Rs.100 crore owing to subdued demand from real estate sector

**Detailed description of the key rating drivers**

***Key rating strengths***

***Experienced management with long track record of operations***

DPL was incorporated in the year 1992 and hence, has a track record of more than two decades. Mr. Digvijay Dhabriya, Managing Director, holds a Bachelor degree in Mechanical Engineering and has two decades of experience in the industry. He looks after overall affairs of the company. He is further assisted by a team of more than 350 employees who help the management in taking the strategic decisions concerning the company. In addition to this, the company has in-house fabrication and Research and development facilities for testing and fabrication of the products.

***Strong customer base with wider product base and applications and moderate order book position with marginal decline in scale of operations***

The company mainly supplies its finished products in India to Customers like Adani group, DLF Limited, Shapoor ji Pallonji & Company Private Limited and gets repetitive orders from them. These are used in newly constructed buildings, offices, Schools, universities, Laboratories and residential apartments.

As on February 29, 2020, DPL has an order book position of Rs.51.31crore and its subsidiary company Dynasty Modular Furnitures Private Limited (DMFPL) has order book of Rs.17.54 crore thus reflecting moderate order-book position. The on-going projects of the company are expected to be completed within 1.5- 2 years. During FY19, Total Operating Income (TOI) of the company has dipped by 8.67% over FY18 and stood at 121.20 Crore as against Rs 132.71 Crore in FY18 mainly on account of decrease in sales in Plastic division due to lower demand from real estate sector.

***Moderate profitability margins and moderate solvency position***

The profitability margins of the company stood comfortable marked by PBILDT and PAT margin of 13.48% and 4.59% respectively in FY19 as against 13.93% and 5.17% respectively in FY18. During FY19, PBILDT margin of the company has

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

decreased by 44 bps over FY18 mainly on account of lower PBILDT in its subsidiary, Polywood Green Building Systems Private Limited (PGB), due to high cost of sales registered in PGB coupled with high power and fuel expenses. Further, PAT margin has also dipped by 58 bps over FY18 mainly due to proportionately higher depreciation and interest/finance charges. Also, the Gross cash accruals of the company has decreased by 13.20% and stood at Rs.9.18 crore in FY19 mainly due to decrease in PAT as well as depreciation charges in FY19.

An undertaking has been given to the bank that unsecured loans to the extent of Rs.7.14 crore deployed in the business shall be subordinated to bank borrowings and hence, it is treated as quasi equity. On account of this, the capital structure of the company stood comfortable with an overall gearing of 0.75 times as on March 31, 2019, improved marginally from 0.78 times as on March 31, 2018 mainly on account of accretion of profits to reserves which offsets to an extent on account of higher utilization of working capital bank borrowings, disbursement of new term loans and infusion of unsecured loans. Further, the debt coverage indicators of the company stood comfortable with total debt to gross cash accruals of 4.36 times as on March 31, 2019, deteriorated from 3.53 times as on March 31, 2018 mainly on account of decrease in GCA level and increase in total debt. The interest coverage ratio of the company stood comfortable at 3.30 times in FY19, deteriorated from 3.83 times in FY18 owing to decrease in PBILDT level.

***Key Rating Weaknesses***

***Project implementation risk***

The company undertook two projects for installation of solar plant and has successfully completed the solar plant installation at Sitapura Unit, Jaipur through internal accruals whereas it kept on hold the same for Malviya Nagar unit, Jaipur. It incurred total cost of Rs.0.80 crore. The second project is expected to be completed till April 2020. Further, for shifting of the manufacturing facility from Coimbatore (Tamil Nadu) to Bangalore is still under execution. The construction of the building in Bangalore is still going on and the total cost incurred is Rs. 5.34 crore till March 10, 2020 which includes Rs.3.84 crore of Land and Rs 1.50 crore towards building and the same is funded through internal accruals. The company is expected to complete the whole shifting of the facility till June 2020 and will also commercialize the same.

***Vulnerability of margins to fluctuation in raw material prices and foreign exchange risk***

The main raw material of the company is Poly Vinyl Chloride (PVC) in powder form, Calcium carbonate, additives etc. The raw material cost constitutes around 50-60% of Total Operating Income (TOI) in last three financial years ended FY19. The prices of these raw materials are governed by demand-supply dynamics and had shown huge fluctuations in past few years.

Further, profitability of DPL is also exposed to foreign currency fluctuation risk as it does not have any active hedging policy. However, DPL earned a foreign exchange gain of Rs.0.22 crore in FY19 as against Rs.0.16 crore in FY18.

***Presence in a highly fragmented and competitive industry and exposed to real estate sector***

Its presence in the highly fragmented industry with presence of few numbers of organized and large numbers of unorganized players exposes the company to high competition. Further, in all the contracts, the company does not have any price escalation clause that led to vulnerability of margins to fluctuation in materials as well as employee cost.

Further, the demand of its products comes mainly from real estate sector which exposes it to cyclical real estate sector.

***Liquidity: Adequate***

The liquidity position of the company stood adequate as it has envisaged Rs.9.68 Crore of cash accruals as against repayment obligations of Rs.3.07 Crore in FY20. Further, the cash and the bank balance of the company stood at Rs.3.09 crore as on March 31, 2019. The business of the company is working capital intensive in nature marked by average utilization of 98.72% of its working capital bank borrowings during last twelve months ended November 2019 with elongated operating cycle of 154 days in FY19 owing to high inventory holding period. The main raw material for the products includes PVC in powder form, Calcium carbonate, Heat stabilizers, pigments and additives. The company maintains high inventory owing to nature of business where it has to display its finished products. The raw materials are also imported (17.75% in FY19) from countries namely like Spain, China and Malaysia which is then modified indigenously for sale to end consumers. Due to it, the company maintains high inventory. Due to high inventory, the current ratio stood moderate at 1.52 times as on March 31, 2019, however, quick ratio stood below unity level at 0.80 as on March 31, 2019. However, in FY19, the net cash flow from operating activities improved from Rs.5.25 crore in FY18 to Rs.8.38 crore in FY19, mainly due to lower working capital gap.

**Analytical approach: Consolidated Approach**

Consolidated financials of the company includes financials of wholly owned subsidiaries i.e. Polywood Green Building Systems Private Limited (PGB), Polywood Profiles Private Limited (PPP) and Dynasty Modular Furnitures Private Limited

(DMF). PGB and PPP are engaged in the same line of business as DPL and DMF is engaged in the business of manufacturing of wooden and PVC based furniture and modular kitchens.

**Applicable Criteria**
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology- Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

**About the Company**
Jaipur (Rajasthan) based DPL was originally established as a private Limited company in 1992 by Mr. Digvijay Dhabriya as "Dhabriya Agglomerates Private Limited" for carrying out trading and manufacturing of PVC and UPVC based products. Later, in August 2014, it was reconstituted into public limited company and assumed its current name i.e. DPL.
The company is mainly engaged in manufacturing and trading of PVC and UPVC based products which have wide applications in fabrications and interiors. The company has three manufacturing facilities located at Sitapura and Malviya Nagar Jaipur and third one at Coimbatore, Tamil Nadu. The plant of the company is certified with International Organization for Standardization (ISO) like ISO 9001:2008 and 14001:2004 for optimum utilization of resources with better time and quality management. Further, the subsidiaries namely Polywood Green Building Systems Private Limited (PGB) and Polywood Profiles Private Limited (PPP) are engaged into manufacturing of PVC windows-doors, PVC false ceilings, wall panelling and partitions as that of DPL whereas another subsidiary namely Dynasty Modular Furnitures Private Limited (DMF) is engaged in the business of manufacturing of wooden and PVC based furniture and modular kitchens.

**Dhabriya Polywood Limited (Consolidated)**

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 132.71 | 121.20 |
| PBILDT | 18.48 | 16.34 |
| PAT | 6.86 | 5.56 |
| Overall gearing (times) | 0.78 | 0.75 |
| Interest coverage (times) | 3.83 | 3.30 |

*A: Audited*

In 9MFY20 (Consolidated), the company has registered TOI of Rs.86.17 crore with PBILDT and PAT margin of 13.36% and 4.44% respectively.

**Dhabriya Polywood Limited (Standalone)**

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 78.34 | 74.09 |
| PBILDT | 12.44 | 10.41 |
| PAT | 4.02 | 2.91 |
| Overall gearing (times) | 1.03 | 0.94 |
| Interest coverage (times) | 3.43 | 2.81 |

*A: Audited*

In 9MFY20, the company has registered TOI of Rs 47.18 crore with PBIDT and PAT margin of 14.41% and 3.73% respectively

**Status of non-cooperation with previous CRA:** Not Applicable

**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-Term | - | - | October 2024 | 14.44 | CARE BBB-; Stable |

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Loan | | | | | |
| Fund-based - LT-Cash Credit | - | - | - | 15.00 | CARE BBB-; Stable |
| Fund-based - LT-Bank Overdraft | - | - | - | 3.13 | CARE BBB-; 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Term Loan | LT | 14.44 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (14-Feb-19) | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 15.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (14-Feb-19) | - | - |
| 3. | Fund-based - LT-Bank Overdraft | LT | 3.13 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (14-Feb-19) | - | - |

***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.*

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