

Dhabriya Polywood Limited (Revised)
 February 14, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term bank facilities	34.93	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total	34.93 (Rupees Thirty four Crore and ninety three lakh only)		

Detailed Rationale & Key Rating Drivers

The rating of Dhabriya Polywood Limited (DPL) favourably takes into account experienced management with long track record of operations, strong customer base with wider product base as well as wide applications in user industries and continuous growing scale of operations with healthy order book position. The rating, further, derives strength from moderate profitability margins, moderate solvency position and moderate liquidity position.

These strengths, however, offset to an extent on account of project Implementation associated with it and vulnerability of margins to fluctuation in raw material prices and foreign exchange rate.

The ability of the company to increase its scale of operations with speedy execution of contracts within time frame and efficient management of working capital as well as timely completion of the project would be key rating sensitivities

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.

Further, the company has been awarded "SKOCH order of Merit Award" by the SKOCH group for qualifying among Top 100 SME's in India in April 2018.

Strong customer base with wider product base and applications and continuous growing scale of operations with healthy order book position

The DPL has diversified customer base including renowned clientele with top 10 customers constituting 52.85% of Total Operating Income (TOI) in FY18. The company mainly supplies its finished products in India to Customers like Adani group, DLF Limited, Emco Polywood Private Limited, Shapoor ji Pallonji & Company Private Limited, Mahindra Homes Private Limited. Further, it gets repetitive orders from them. As on February 06, 2019, DPL has an order book position of Rs.63.12crore and its subsidiary company Dynasty Modular Furnitures Private Limited (DMF, Subsidiary company) have order book of Rs.22.13 Crore thus reflecting strong order book position. The on-going projects of the company are expected to be completed within 20-24 months.

The products are used in newly constructed buildings, offices, Schools, universities, Laboratories and residential apartments. Due to established customers base and repetitive orders coupled with diversified product profile and its applications, Total Operating Income (TOI) of the company has witnessed continuous growth and has grown at a Compounded Annual Growth Rate (CAGR) of 12.13% in the last three financial years ended FY18.

During FY18, TOI of the DPL has increased by 35.00% over FY17 (41.24% in FY17 over FY16) and stood at Rs.132.71 Crore mainly on account of addition of new business from DMF and increase in sales from manufactured goods.

Further, till February 06, 2019, DPL has registered turnover of Rs. 105.00 Crore

Moderate profitability margins and moderate solvency position

The profitability margins of the DPL stood comfortable marked by PBILDT and PAT margin of 13.93% and 5.17% respectively in FY18 (15.14% and 5.04% respectively in FY17). The Gross cash accruals of the DPL increased by 23.89% and

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stood at Rs.10.58 Crore in FY18 mainly due to increase in scale of operations in FY18.

The capital structure of the DPL stood moderate with an overall gearing of 0.78 times as on March 31, 2018, improved from 1.36 times as on March 31, 2017 mainly on account of scheduled repayment of term loans and accretion of profits to reserves which offsets to an extent increase in working capital bank borrowings. The debt coverage indicators of DPL stood moderate with total debt to gross cash accruals of 3.53 times as on March 31, 2018 and interest coverage ratio at 3.83 times in FY18.

Moderate Liquidity Position

The business of DPL is working capital intensive in nature marked by elongated operating cycle of 124 days in FY18 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 raw materials are also imported (21.83% in FY18) from countries like Germany and China which is then modified indigenously for sale to end consumers. Due to it, the company maintains inventory of 90-120 days. Due to high inventory, the current ratio stood moderate at 1.34 times as on March 31, 2018, however, quick ratio stood at below unity level at 0.67 as on March 31, 2018.

It has utilized 86.69% of its working capital bank borrowings during last 12 months ended January, 2019. However, FY18, the net cash flow from operating activities deteriorated from Rs.14.90 crore in FY17 to Rs. 5.25 crore in FY18, mainly due to high debtor and inventory level.

Key Rating Weaknesses

Project implementation risk

DPL is undertaking two projects, first being establishment of solar plant in Jaipur unit for the purpose of captive consumption within the unit. The estimated total cost of the project is Rs. 1.60 Crore which is to be funded through term loan of Rs. 1.20 Crore and the remaining through internal accruals. The capacity of the solar plant is proposed to be 320 KW. The project is expected to be completed in November, 2019.

The second project is shifting of the manufacturing facility from Coimbatore (Tamil Nadu) to Bangalore and planned to double the existing capacity of plant. The total cost of project is Rs. 10 crore which is to be funded through term loan of Rs. 6.15 crore and remaining through internal accruals of Rs. 3.84 crore. The company has already purchased land of Rs. 3.84 crore in FY12 at Bangalore location for future expansion; hence, remaining cost of project to be incurred is Rs. 6.15 crore which is to be funded through term loan. The project is expected to be completed on September 2019. These projects are at advance stage for finalization stage.

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

The main raw material of the company is PVC in powder form, Calcium carbonate, additives etc. and it import raw material mainly from countries like Germany and China. The raw material cost constitutes around 50-60% of TOI in last three financial years ended FY18. 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 and it does not have any active hedging policy. However, DPL earned a foreign exchange gain of Rs.0.16 crore in FY18 as against Rs.0.18 crore in FY17.

Further, its presence in the highly fragmented industry with presence of few numbers of organized and large numbers of unorganized players exposed to the company to raw material price fluctuation risk. 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.

Analytical approach: Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology- Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

Background of 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 products. Later, in August 21 2014, it was reconstituted into public limited company and assumed its name as Dhabriya Agglomerates Limited. Further, on August 28, 2014 the company resumed 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	98.30	132.71
PBILDT	14.88	18.48
PAT	4.95	6.86
Overall gearing (times)	1.36	0.78
Interest coverage (times)	3.57	3.83

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

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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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 Loan	-	-	October, 2024	15.43	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE BBB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	4.50	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	15.43	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	4.50	CARE BBB-; Stable	1)CARE BBB-; Stable (14-Feb-19)	-	-	-

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