

Press Release

Danalakshmi Paper Mills Private Limited

January 07, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 39.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB-**' (**read as ACUITE Double B Minus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A Four Plus**) on the Rs. 39.00 Cr bank facilities of Danalakshmi Paper Mills Private Limited (DPMPL). The outlook is '**Stable**'.

Danalakshmi Paper Mills Private Limited (DPMPL) is a Coimbatore-based company incorporated in the year 1980, which has established an integrated waste paper based paper mill along with a coal based independent power generation plant of 5.5 Megawatt (MW) at Vilampatti, Nilakkottai Taluk, Dindigul District, Tamil Nadu. DPMPL was erstwhile founded and promoted by Mr. Ramaswamy and taken over by new management in FY2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of DPMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Erstwhile managements' extensive industry experience and guidance, new experienced promoters along with strong second line of management to aid business risk profile**

DPMPL, earlier belonged to the Serval Group which was engaged in the business of manufacture & sale of printing, writing paper and newsprint and also paper industry equipments. DPMPL coupled with another group company named Servalakshmi Paper Limited (SPL) was promoted by Mr. Ramaswamy along with Serval Engineering Works Private Limited and his family members, friends and business associates in 1980. Mr. Ramaswamy had earmarked DPMPL and SPL to both of his daughters. SPL was managed by Mr. Y Shivaram Prasad. DPMPL had made investments to an extent of Rs.33.96 Cr in SPL till FY2007-08 in the form of Equity. DPMPL performed well till the year FY2007-08, post which the company's performance started deteriorating due to various operational and industry related issues such as increasing cost of raw materials, dumping of newsprint from other countries like China, delayed payments from customers and breakdown of boiler and turbine in 2009 and 2014. These factors cumulatively led to steep fall in productions and sales, lower margins resulting in tight cash flow due to cash losses. Into the bargain was the complete write-off of the investments of Rs.16.22 Cr in FY2016-17 and Rs.33.96 Cr in FY2017-18 in group companies. Subsequently, non-payment of statutory dues, debt obligations and operational creditors led to the company go through corporate insolvency resolution process (CIRP). During the resolution process, the application made by the new management - Srinivasa Garments Private Ltd (SGPL) along with Mr. Ramesh Ponnusamy and Mrs. Sugandhi Ramesh, was approved to take over DPML which made investments in the form of equity and unsecured loans in DPMPL to the tune of Rs.40.45 Cr in FY 2019-20. Subsequently, Sri.B.Sriramulu has invested in DPML in the form of Equity for Rs.1.50 Cr during the FY 2019-20. At present, SGPL along with Mr, P Ramesh, Mrs. S Ramesh and Mr. B Sriramulu of KG Group are the shareholders in DPMPL who have extensive industry experience in textile industry of more than 2 decades. Additionally, the company has strong and experienced second line of management to ramp up the operations. Acuité believes that erstwhile managements' extensive industry experience and guidance, new experienced promoters along with strong second line of management will aid business risk profile over the medium term.

- **Moderate Capacity; Gradual ramp-up of operations expected**

The installed capacity of DPMPL was initially at 25 TPD (MT per day) which was enhanced to 140 TPD through installation of a second paper machine in its unit 1 and also amalgamation of Servalakshmi Paper and Boards Private Limited in the year 2013 (unit 2). At present, the company has three paper machines (two in unit 1 and one in unit 2), pulping units, de-inking plants and a 5.5 MW power plant. DPM has taken over on operational lease the production facilities of M/s Vijayalakshmi Paper Mills (VJPM) comprising of pulping section and paper machine with machine glazing (MG) facility. VJPM has been producing mainly MG kraft paper & MG poster paper in the past. The lease arrangement is for a period of 15 years from Jan 2020. With an average machine speed of 250 MPM, the average daily output of VJPM machine is expected to be at about 29 MT for an average 45 GSM kraft / poster paper varieties. Hence, the total production capacity of DPM including VJPM machine comes to 57000 MT per annum. VJPM has connected electrical load of 1950 KVA with state DISCOM. DPMPL's scale of operations are expected to ramp-up with takeover by the new management and funding tie-up with banks in October, 2020. The company has clocked in revenue of around Rs.11 Cr till date and is expected to generate revenue of Rs.5-6 Cr per month in Q4FY2021. Acuite believes that the scale of operations will continue showing passable growth over the medium term resulting from gradual ramp-up in its operations.

- **Favorable industry conditions**

Paper demand is driven by growing consumerism and e-commerce, ban on plastic usage in several states, rising literacy and continued government spending on education is likely to outpace the planned supply additions during the next couple of years. Also, growth in packaging paper/board requirement in various sectors such as pharma, FMCG, e-commerce, etc. will drive demand for industrial paper going ahead. Acuité believes that rising urbanization, increasing penetration of organized retail, growth in FMCG, pharmaceutical and processed food industries are likely to be the major growth drivers for the segment going ahead.

Weaknesses

- **Moderate financial profile expected**

DPMPL's financial risk profile is expected to be moderate, marked by moderate capital structure and debt protection metrics. DPMPL has moderate net worth of Rs.20.29 Cr as on March 31, 2020 (Provisional) as against Rs.9.95 Cr as on March 31, 2019. Moderate net worth and debt resulted in moderate gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 1.43 times and 1.61 times, respectively, as on March 31, 2020 (Provisional) vis-à-vis 3.80 times and 4.07 times March 31, 2019. With gradual ramp-up in operations, DPMPL is expected to generate net cash accruals in the range of Rs.1.00 -5 Cr against its debt obligations of Rs.0.89 -2.15 Cr over the period FY2021-23. Debt protection metrics were moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.59 times and 0.03 times, respectively, in FY2020 (provisional). Acuité believes that in the absence of any major debt-funded capital expenditure plan in near term; improving cash accruals supported by repayments of debt obligations will lead to moderate financial risk profile over the medium term.

- **Highly fragmented and competitive industry**

The recycling industry is highly fragmented with several organized and unorganized players, thereby impacting the company's profitability. The industrial paper industry is subject to stringent environmental and pollution control norms as paper mills contribute significantly to air and water pollution. Players in the industry have to comply with stringent effluent treatment norms of pollution control boards and complete discretion of the government, which led to high compliance risks. However, most of the pulp-based paper mills has adopted environment friendly technologies to minimize wastage and maximize recycling/reuse materials to produce eco-friendly paper. Also, the domestic industry faces immense competition of imports from ASEAN countries, which are of superior quality and of lower prices. Acuité believes that adherence to several environmental regulations and continuous investments are required to comply with the norms, which is likely to impact the profitability.

Liquidity Position: Sufficient

DPMPL's liquidity is expected to remain sufficient, marked by sufficient availability of working capital bank lines, adequate net cash accruals against its increasing debt obligations, moderate current ratio and continuous promoter fund support in the form of unsecured loans. With gradual ramp-up in operations, DPMPL is expected to generate net cash accruals in the range of Rs.1.00 -5.00 Cr against its debt obligations of Rs.0.89 -2.15 Cr over the period FY2021-23. To supplement, continuous promoter fund support to aid liquidity in near term. The present promoters had infused unsecured loans of Rs.28.94 Cr during takeover. Though, Rs.15 Cr have been repaid through the term loan availed from the bank. Yet, the remaining Rs.13.94 Cr along with additional support to cover up initial losses is expected to remain in the business over the medium term. Acuité believes that DPMPL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Rating Sensitivities

- Higher-than-expected revenue and profitability resulting from speedy ramp-up of operations
- Lower-than-expected promoter fund support
- Elongated working capital cycle

Outlook: Stable

Acuité believes that DPMPL continue to benefit over the medium term due to its experienced management and promoter fund support. The outlook may be revised to 'Positive', in case of speedy ramp-up in operations leading to higher-than-expected revenues and profitability with moderate working capital management. Conversely, the outlook may be revised to 'Negative' in case DPMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure or lower-than-expected promoter fund support leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (prov)	FY19 (Actual)
Operating Income	Rs. Cr.	5.89	0.24
PAT	Rs. Cr.	-1.15	-2.73
PAT Margin	(%)	-19.59	-
Total Debt/Tangible Net Worth	Times	1.43	3.80
PBDIT/Interest	Times	2.59	-0.20

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB-/ Stable (Assigned)
Packing Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Assigned)
Term Loan	October, 2020	11.00%	November, 2028	15.00	ACUITE BB-/ Stable (Assigned)
Bill purchase/discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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