

Press Release

Danalakshmi Paper Mills Private Limited

April 25, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	24.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	39.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

The ratings reaffirmation favourably factors in managements' extensive industry experience and guidance, extensive industry experience of new promoters along with strong second line of management to aid business risk profile, increasing scale of operations on account of increasing capacity utilization levels and realisations and favourable industry conditions. The rating however is constrained by below-average financial risk profile and working capital intensive nature of operations.

About the Company

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

Acuite 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. 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. 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.

- **Increasing scale of operations on account of increasing capacity utilization levels and realisations**

The operating income of the company stood at Rs. 21.42 crore in FY2021 from Rs. 5.89 crore in FY2020; operating income increased as the company has started its operations from November 2020. Operating profitability i.e. EBITDA margin stood at (12.99)%. Net Profit margin stood at (24.97)% in FY2021. Capacity utilization levels have increased in FY2021 as compared to FY 2020. In FY2020, the utilization levels were only 2.69% which gradually improved to 9.67% in FY2021. There is a significant improvement in operating income for FY2022 (up to December 31, 2022); DPMPL has generated Rs.33.54 Cr of operating income and EBITDA margin of 7 % until December 31, 2022. Acuite believes that there will be moderate improvement in the operating income and margins over the medium term on account increasing order book and capacity utilization levels.

- **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

- **Below-average financial risk profile**

DPMPL'S financial risk profile is below - average, marked by a moderate Net worth and gearing along with modest debt protection metrics. The company's net worth stood at Rs. 14.92 Cr as on March 31, 2021 as against Rs. 20.27 Cr as on March 31, 2020. Gearing levels (debt-to-equity) stood at 3.03 times as on March 31, 2021 as against 1.43 times as on March 31, 2020. Further, the interest coverage ratio stood at (2.00) times for FY2021. Total outside liabilities to total net worth (TOL/TNW) stood at 3.62 times as on FY2021 vis-à-vis 1.62 times as on FY2020. 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.

• Working capital intensive nature of operations

The working capital management of company remained high with Gross Current Assets (GCA) days at 443 days as on March 31, 2021 as against 611 days as on March 31, 2020. The decrease in GCA days is on account of improving debtor days from 116 days as on March 31, 2020 to 68 days as on March 31, 2021. The inventory days improved to 236 days as on March 31, 2021 as against 389 days as on March 31, 2020. Creditor days stood at 253 days as on March 31, 2021 from 354 days as on March 31, 2020. The bank lines of the company limits have remained utilized in the range of 97percent for last 12months ended December 31, 2021.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Anyweakening of financial risk profile of the company.

Material covenants

None

Liquidity Position: Stretched

The DPMPL has Stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. (4.17) Cr for FY2021 as against Rs. 0.89 Cr of repayment obligations for the same period. The NCAs going forward would be adequate enough to service its upcoming obligations. The company maintains unencumbered cash and bank balances of Rs. 0.08 Cr as on 31st March 2021. The current ratio of the company stood modest at 1.15 times as on March 31, 2021. To supplement, continuous promoter fund support to aid liquidity in near term. The present promoters had infused unsecured loans of Rs.2.31 Cr during FY2021. Though, Rs.15 Cr have been repaid through the term loan availed from the bank. Acuité believes that DPMPL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

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-thanexpected promoter fund support leads to deterioration of its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	21.42	5.89
PAT	Rs. Cr.	(5.35)	(1.18)
PAT Margin	(%)	(24.97)	(20.02)
Total Debt/Tangible Net Worth	Times	3.03	1.43
PBDIT/Interest	Times	(2.00)	(3.78)

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jan 2021	Term Loan	Long Term	15.00	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	9.00	ACUITE BB- Stable (Assigned)
	Bills Discounting	Short Term	3.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	9.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	3.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB- Stable Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ Reaffirmed
Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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