Press Release
DANALAKSHMI PAPER MILLS PRIVATE LIMITED
July 11, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.00	ACUITE B+ | Stable | Downgraded	-
Bank Loan Ratings	15.00	-	ACUITE A4 | Downgraded
Total Outstanding Quantum (Rs. Cr)	39.00	-	-

Rating Rationale
Acuité has downgraded its long-term rating to '**ACUITE B+' (read as ACUITE B Plus)** from **ACUITE BB- (read as ACUITE double B minus)** and short term rating to '**ACUITE A4' (read as ACUITE A Four)** from **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**'.

Rationale for the rating downgrade
The ratings downgrade takes into account deterioration in the operating performance of the company leading to erosion of net-worth and weak coverage indicators. The company generated operating income of Rs. 47.83 Cr in FY2022 as against Rs.21.42 Cr in FY2021, however, the operating losses rose to (20.97)% in FY2022 from (12.99%) in FY2021. The net-worth stood reduced to Rs.(1.31) Cr as on March 31, 2022 as against Rs.14.92 Cr as on March 31, 2021. The rating continues to derive its strength from managements' extensive industry experience

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

Key Rating Drivers

Strengths
Management's 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 papers and newsprint and also paper industry equipment. 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 management's extensive industry experience and guidance, new experienced promoters along with strong second line of management will aid business risk profile over the medium term.

Weaknesses

Below-average financial risk profile

DPMPL'S financial risk profile is below - average, marked by below -average gearing (debt to equity) ratio, negative net worth and below average debt protection metrics. Tangible net worth of the company stood negative at Rs.1.31 Cr as on March 31, 2022 against at Rs.14.92 Cr as on March 31, 2021. Gearing levels (debt-to-equity) stood at (48.53) times as on March 31, 2022 as against 3.03 times as on March 31, 2021. Further, The Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at (1.84) times and (1.58) times respectively in FY2022. The strong support from the group (KG denim group), with infusion of USL to the company in FY2022 and FY2023, DPMPL is able to serve its debts on time. Total outside liabilities to total net worth (TOL/TNW) stood at (59.27) times as on FY2022. 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 258 days as on March 31, 2022 as against 443 days as on March 31, 2021. The decrease in GCA days is on account of decrease in debtor days to 42 days as on March 31, 2022 from 116 days as on March 31, 2021. The inventory days improved to 147 days as on March 31, 2022 as against 236 days as on March 31, 2021. Creditor days decreased to 100 days as on March 31, 2022 from 253 days as on March 31, 2021. The bank lines of the DPMPL limits have remained utilized in the range of 96.7 percent for last 12 months ended May 2023.

Rating Sensitivities

- Higher-than-expected improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Any deterioration in working capital cycle and liquidity profile of the company.

Material covenants

None

Liquidity Position: Stretched

The DPMPL liquidity is stretched due to the insufficient liquidity marked by negative net cash accruals to its maturing debt obligations.The company generated cash accruals of Rs. (15.43) Cr for FY2022 as against Rs.2.53 Cr of repayment obligations for the same period. DPMPL is expected to generate cash accruals of Rs.2.52 - 4.25 Cr in in the next two years. The NCAs going forward would be adequate enough to service its upcoming obligations. DPMPL has continuous group support to aid its liquidity in near term. The promoters have infused unsecured loan of Rs. 9.17 Cr and Rs.4.89 Cr in FY2023(E) and FY2022 respectively. The company maintains unencumbered cash and bank balances of Rs.0.14 Cr as on 31st March 2022. The current ratio of the company stood below one as on March 31, 2022. The bank lines of the DPMPL limits have remained utilized in the range of 96.7 percent for last 12 months ended May 2023.

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 increase in operations leading to higher-than-expected revenues and profitability margins 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.

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	47.83	21.42
PAT	Rs. Cr.	(16.23)	(5.35)
PAT Margin	(%)	(33.93)	(24.97)
Total Debt/Tangible Net Worth	Times	(48.53)	3.03
PBDIT/Interest	Times	(1.84)	(2.00)

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
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Apr 2022	Letter of Credit	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Packing Credit	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE BB- | Stable (Reaffirmed)
	Bills Discounting	Short Term	3.00	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BB- | Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A4 | Downgraded
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE B+ | Stable | Downgraded
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A4 | Downgraded
Indian Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A4 | Downgraded
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.00	ACUITE B+ | Stable | Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.