June 29, 2022

Deveuro Paper Products LLP: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – CC	5.00	3.00	[ICRA]B (Stable); reaffirmed
Long-term – Fund-based – TL	5.00	3.88	[ICRA]B (Stable); reaffirmed
Long-term – Fund-based – Unallocated	0.00	3.12	[ICRA]B (Stable); reaffirmed
Total	**10.00**	**10.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings are constrained by the modest scale of operations of Deveuro Paper Products (DPP or the firm), the intense competition in the paper-based packaging segment from other small and unorganised players, besides susceptibility to forex risks. Moreover, the ratings factor in the firm's high leverage and weak accruals, which lead to weak credit metrics. However, the ratings favourably factor in the firm's expanding customer profile supported by the significant experience of the promoters in the printing and packaging industry. The Stable outlook on the long-term rating factors in the encouraging demand outlook for the firm's products and its plans to expand capacities.

Key rating drivers and their description

Credit challenges

Modest scale of operations encumbers competitive position; expected to improve in medium term with planned capex – Due to its recent commencement of operations in 2018, the firm is still at a small scale of operations with a total revenue size of ~Rs. 20.0 crore in FY2022 and a net worth of merely ~Rs. 0.67 crore. However, planned capacity expansion in FY2023 from the current 100-tonnes per month to 175-tonnes per month is expected to support scale expansion.

Susceptibility to forex risks – The firm has increased its export revenues to Rs. 7.6 crore in FY2022. However, the absence of any hedging mechanism exposes DPP to forex risks.

Leveraged capital structure owing to debt-funded capex and weak accretion – Having commenced operations from August 2018, the firm has been incurring high debt-funded capital expenditure (capex) in recent fiscals, which has resulted in a highly leveraged capital structure with gearing and Debt/EBIDTA of 30.75 times and 37.36 times, respectively, in FY2022. In addition, fresh term debt is also expected to be availed in FY2023 for incurring capex. Reduction in interest rates by lender and longer tenor of debt repayments are expected to support an improvement in accruals and credit metrics, going forward.

Credit strengths

Experienced promoters in paper and packaging Industry; moderately diversified customer portfolio with increasing focus on exports - The promoters, albeit inexperienced specifically in bagasse paper products, have significant experience of 30-35 years in printing and packaging solutions such as corrugated boxes through their company, RNG Packagings Pvt. Ltd., which was incorporated in 1986. Due to significant experience of the promoters, the firm has been successful in acquiring a significant customer base of corporate houses and has also been able to diversify into export sales.

Liquidity position: Poor

The liquidity profile remains poor due to weak cash accruals, minimal cash balances and full utilisation of working capital facility. While cash accruals are expected to improve, planned debt-funded capex would keep liquidity under pressure. ICRA expects promoters to support the liquidity position through unsecured loans, as witnessed earlier.

Rating sensitivities

Positive factors – Healthy growth in the revenues while maintaining profitability and improvement in liquidity profile could result in upward movement in ratings. Specific triggers would be Debt/OPBITDA lower than 5.0 times on a sustained basis.

Negative factors – Further deterioration in liquidity profile or further weakening of credit metrics could lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the entity's standalone financial profile.

About the company

DPP was incorporated in July 2015 by Mr. Pankaj Aggarwal and Mrs. Sangeeta Aggarwal; however, commercial operations of the firm started in FY2019. Based out of Noida, Uttar Pradesh, the firm manufactures paper products made out of sugarcane bagasse. The firm produces customised and eco-friendly sugarcane bagasse products mainly for schools, offices and weddings. Its range of products include paper plates, bowls, clamshells, trays and containers with compartments. The firm received an ISO 14001:2015 Environmental Management System certification in September 2019 as a manufacturer of compostable tableware and food packing containers. In FY2022, the firm reported an operating income of Rs. 20.0 crore and OPBITDA of Rs. 3.3 crore at an OPM of 16.4%.

Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022 (provisional)
Operating Income (Rs. crore)	7.3	20.0
PAT (Rs. crore)	-2.4	-0.2
OPBDIT/OI (%)	16.6%	16.4%
PAT/OI (%)	-32.8%	-1.0%
Total Outside Liabilities/Tangible Net Worth (times)	45.04	37.36
Total Debt/OPBDITA (times)	17.9	6.3
Interest Coverage (times)	0.7	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The firm has been consistently submitting monthly non-default statements to ICRA. However, in June 2022 it has come to ICRA's notice that the firm's bank facilities were restructured in FY2022. As confirmed by the lender, in March 2021, the firm applied for a restructuring under the Covid Scheme, which was duly accepted by the bank. While the restructuring request was being processed, there were delays in interest repayments of up to 35 days on the firm's CC facility in April and June 2021. The resolution plan was implemented in August 2021. The specific instances of delays for the period when the restructuring application was being processed by the bank is not treated as a default as per the default recognition policy of ICRA (given that the request for restructuring was made by the firm to its lender prior to the due date of debt servicing). Please click here to see the policy document on this subject.

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020		
					June 29, 2022	Apr 29, 2021	Mar 15, 2021	Apr 16, 2020	Feb 17, 2020	Dec 16, 2019	Oct 10, 2019
1	Fund Based – Cash Credit	Long Term	3.00	2.87	[[ICRA]B (Stable)	[[ICRA]B (Stable)	[ICRA]D	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D
2	Fund Based – Term Loan	Long Term	3.88	3.91	[ICRA]B (Stable)	[[ICRA]B (Stable)	[ICRA]D	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D
3	Fund Based – Unallocated	Long Term	3.12	-	[ICRA]B (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash credit	Simple
Long-term Fund-based – Term Loan	Simple
Long-term Fund-based – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	3.00	[[ICRA]B (Stable)
NA	Term Loan	2018	-	FY2028	3.88	[[ICRA]B (Stable)
NA	Unallocated	-	-	-	3.12	[[ICRA]B (Stable)

Source: *Company*

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 022 6114 3400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545 308
sheetal.sharad@icraindia.com

Susovan Mondal
+91 124 4545 392
susovan.mondal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches