

March 28, 2017

Devang Paper Mills Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	3.00	[ICRA]BB- (Stable) reaffirmed
Unallocated Limits	6.50	[ICRA]BB- (Stable) reaffirmed
Total	9.50	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating assigned to the Rs. 9.50-crore long-term fund-based facility of Devang Paper Mills Private Limited (DPMPL)¹ at [ICRA]BB- (pronounced ICRA double B minus). The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the rating continues to take into account the long track record of the promoter group in the kraft paper manufacturing business and comfortable gearing and coverage indicators.

The rating, however, continues to remain constrained by the vulnerability of margins to increase in prices of key inputs (viz- waste paper and coal in the current fiscal) and the company's ability to pass on the price hike to end its customers. The rating also takes into account the company's focus on single product-kraft paper; working capital intensive nature of operations and the intense competitive pressures in the kraft paper business.

Given the revenue growth of ~2.6% during 9M FY2017 over 9M FY2016, DPMPL's revenue is expected to grow at muted levels. The kraft paper industry is currently facing pressure due to increased input costs (waste paper and coal) which could curtail the growth sales during Q4 FY2017 and consequently FY2017. Further, an upward movement in cost, especially waste paper, without the ability to timely pass on the same to the end customer may pressurise margins. Accordingly, the company's ability to pass on the incremental cost to the end customers while maintaining its growth momentum and effectively manage its working capital cycle will remain the key rating monitorables.

Key Rating Drivers

Credit strengths

- Long track record of the company in the kraft paper business
- Comfortable gearing and coverage indicators

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Credit weaknesses

- Vulnerability of margins to increase in key inputs costs (waste paper and coal) in current fiscal and expected to continue in the near term and the company's ability to pass on the hike to its customers
- High working capital intensive nature of operations due to elongated receivables
- Exposure to product concentration risk with product portfolio confined to kraft paper
- Intense competition

Description of key rating drivers:

The company manufactured low quality kraft paper of various grades, with the burst factor (BF) ranging from 16 to 20 and with GSM of 120-300 up to FY2014. In FY2014, the company undertook a project for plant modernisation and expansion of capacity from 31,200 MTPA to 43,200 MTPA. Post expansion and modernisation, DPMPL has also started manufacturing high quality paper with the burst factor (BF) ranging from 22-35. The sales of the high quality paper with BF ranging from 22-35 have formed ~30%-40% of the paper sales in FY2016, and the current fiscal as compared to earlier 15%-25% of the paper sales in FY2015 and FY2014. In FY2016, the company registered a growth of ~13% in revenues contributed by an increase in the sales volumes by ~15% (34,516 MT in FY2016 as against 30,012 MT in FY2015); moderating the impact of decrease in the sales realisation by 2% (to Rs. 25.80 per kg in FY2016 from Rs. 26.3 per kg in FY2015). During FY2016, the average raw material procurement prices reduced by 4% from Rs. 13,363/MT in FY2015 to Rs. 12,837/MT primarily on account of improved yield (92% in FY2016 as compared to 90% in FY2015) as well as the availability of cheaper imported waste paper. Besides a decrease in the raw material cost, the power and fuel cost has also decreased partially owing to a reduction in coal prices and partially owing to increased production, which led to reduced power and fuel cost per unit of production. These reductions in overall cost have translated to better operating margins of the company. The company mainly sells through its established agent/dealer network which accounts for approximately 70% of the total sales. These agents have tie-ups with corrugated box manufacturers who make boxes as per specifications of the end-user industries.

Over the last three years, the company has reduced its sourcing of imported waste paper from 50% in FY2012 to 30% in FY2015. However, with reduction in the international paper prices in FY2016 and the current fiscal, the company has increased paper imports (44%-46% of the paper is imported in FY2016 and 9MFY2017). In H2 FY2017, the prices of the company's key inputs (waste paper and coal) have witnessed an increase; which is continuing. Thus, the profitability in the near term may pose a challenge, and would be contingent on the company's ability to pass on the same to the final client. DPMPL operates a 3 MW captive wind mill power station located in the Bhuj District of Gujarat; the power generated from the wind mills is sold to the Gujarat Electricity Board (GEB). The wind mill division generated revenue of Rs. 2.14 crore and Rs. 1.84 crore in FY2016 and 9M FY2017 respectively which supported the operating income.

Analytical approach:

For arriving at the ratings, ICRA has considered the business and the financial risk profiles of Devang Paper Mills Private Limited (DPMPL).

Links to applicable criteria

[Corporate Credit Ratings: A Note on Methodology](#)

About the company:

Incorporated in 2011, Devang Paper Mills Private Limited (DPMPL) is into manufacturing kraft paper. Prior to DPMPL's incorporation into this business, kraft paper manufacturing was a part of Biodeal Laboratories Pvt. Ltd. (BDLPL). BDLPL had three divisions – Pharmaceuticals, Paper Mill and Wind

Mill – prior to the demerger. The pharmaceutical division was sold by the management and the paper mill and wind mill divisions were demerged into DPMPL.

DPMPL is promoted by Thobhan Patel and his family and operates from its plant based at Vapi (Gujarat) with a production capacity of 43,200 MTPA of kraft paper manufacturing. The company also operates a wind mill division in the Shikarpur District of Bhuj (Gujarat) with four wind mills having a combined capacity of 3 MW.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating history for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crores)	Month & year Rating in 2017	Month & year Rating in 2016	Month- year & Rating in 2015		Month- year & Rating in 2013	
				March 2017	March 2016	March 2015	June 2014	February 2013	
1	Cash Credit	Long term	3.00	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+	
2	Unallocated limits	Long term	6.50	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	September 26, 2016	12.05%	-	3.00	[ICRA]BB- (Stable)
Unallocated Limits	-	-	-	6.50	[ICRA]BB- (Stable)

Source: Bank's Sanction letter

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