

## Daman Ganga Packaging Solutions LLP

April 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	3.00	4.50	[ICRA]BB- (Stable); Upgraded from [ICRA]B+(Stable)
Fund-based – Term Loan	11.75	9.87	[ICRA]BB- (Stable); Upgraded from [ICRA]B+(Stable)
Unallocated Limit	-	0.38	[ICRA]BB- (Stable); Upgraded from [ICRA]B+(Stable)
<b>Total</b>	<b>14.75</b>	<b>14.75</b>	

\*Instrument details are provided in Annexure- 1

### Rating action

ICRA has upgraded the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]B+ (pronounced ICRA B plus) for the Rs. 4.50-crore<sup>1</sup> fund-based cash credit facility, Rs. 9.87-crore term loan and Rs. 0.38 crore unallocated limits of Daman Ganga Packaging Solutions LLP (DGPSL or the firm)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating upgrade takes into account the improvement in the firm's financial risk profile supported by a healthy ramp up in the scale of operations, increase in profit margins and capital infusion, leading to an improvement in the capital structure in FY2017 and 9M FY2018, compared to ICRA's estimation. The ratings continue to factor in the extensive experience of DGPSL's promoters in the packaging industry and its product portfolio catering to multiple end-user industries. The ratings also consider the reputed customer base and track record of repeat orders.

The ratings, however, remain constrained by DGPSL's modest scale of operations and average financial risk profile marked by moderate debt coverage indicators. The ratings are also constrained by the vulnerability of the firm's profitability to adverse fluctuations in raw material prices and intense competition on account of the fragmented nature of the industry with the presence of numerous players. ICRA also notes the potential adverse impact on the firm's net worth and the gearing levels in case of any substantial withdrawal from capital accounts given that it is a limited liability partnership concern.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Outlook: Stable

ICRA believes DGPSL will continue to benefit from the extensive experience of its promoters in the packaging industry as well as from their established relationships with customers. The outlook may be revised to Positive if substantial growth in revenue and sustained improvement in profitability, and better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected because of a decline in profitability, or if any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakens its liquidity.

## Key rating drivers

### Credit strengths

**Extensive experience of promoters in the packaging industry** – DGPSL was established in 2015 by Mr. Banjul Shah and seven other partners, for manufacturing paper-based packaging products. The key promoters, Mr. Banjul Shah and Mr. Jitendra Shah, have an experience of more than a decade in the paper and packaging industry via their association with other entities operating in a similar business.

**Diversified product portfolio; established relationship with customers** – The firm caters to multiple industries, including textile, adhesives, electrical and chemicals among others. The firm's clientele includes reputed customers from the domestic market. Moreover, established relationships with its customers have resulted in repeat orders with its top five customers remaining the same in the past two fiscals.

**Healthy revenue growth and moderate capital structure** – The firm's operating income grew at a healthy rate in 9M FY2018 (~36% on an annualised basis), albeit on a lower base. The operating margins remained 9.41% in FY2017 and improved further to 11.70% in 9M FY2018, on account of an increase in the scale as well as in realisations. The firm's capital structure remains moderate as reflected in gearing of 1.17 times as on March 31, 2017. The capital structure is expected to improve, with estimated gearing of ~ 1 times as on March 31, 2018, supported by capital infusion of Rs. 1.00 crore in FY2018.

### Credit challenges

**Modest scale of operations** – The scale of operations remained moderate, as reflected in the operating income (OI) of Rs. 15.13 crore in 8M FY2017 and Rs. 22.57 crore in 9M FY2018 (provisional figures).

**Average debt coverage indicators and moderate liquidity position** - The coverage indicators were average in 9M FY2018, with interest coverage at 2.22 times, total debt/OPBDITA of 3.83 times (on an annualised basis) and DSCR of ~1 times (on an annualised basis). The overall liquidity position remained moderate, marked by high fixed debt repayment obligations and high utilisation of working capital limits, with average utilisation of ~70% during February 2017 to February 2018.

**Intense competition from established players and unorganised sector** - The business environment remains competitive given the fragmented and unorganised structure of the packaging industry. A large portion of the paperboard packaging industry is serviced by unorganised players and the organised market is dominated by a few major players, which limits DGPSL's pricing flexibility, and thereby exerts pressure on operating profit margins. However, DGPSL's superior product profile and established client relations mitigate the risk to some extent.

**Vulnerability of profitability to adverse fluctuations in raw material prices** – The firm's profit margins are largely affected by raw material price fluctuations, due to limited ability to pass on price increases to customers owing to high competition and low bargaining power.

**Adverse impact on net worth** – DGPSL, being a limited liability partnership firm, is exposed to adverse capital structure risk in case of substantial withdrawal from its capital accounts.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the firm:

Incorporated in 2015, Daman Ganga Packaging Solutions LLP, a limited liability partnership firm, manufactures paper tubes and cores, fibre drums and edge protectors to cater to the packaging requirements of various industries. DGPSL is promoted by Mr. Banjul Shah and seven other partners. Mr. Banjul Shah, Mrs. Simona Shah, Mr. Rushit Shah and Mr. Jitendra Shah manage the firm's operations. DGPSL commenced its business in August 2016 after the closure of two other Group companies, Daman Ganga Tubes & Cores Private Limited (DGTCP) and Daman Ganga Paper Convertors Private Limited (DGPCPL), in July 2016. The Group company businesses were taken over by the newly formed DGPSL. The firm's manufacturing facility is in Vapi, Gujarat.

### Key financial indicators (Audited)

	FY2017*
Operating Income (Rs. crore)	15.13
PAT (Rs. crore)	0.12
OPBDIT/ OI (%)	9.41%
Total Debt/ TNW (times)	1.17
Total Debt/ OPBDIT (times)	6.24
Interest Coverage (times)	1.82
NWC/ OI (%)	7.39%

*\*Eight months (operations commenced from August 2016)*

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Date & Rating	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding as on February 28, 2018 (Rs. crore)		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
Cash Credit	Long Term	4.50	-	April 2018 [ICRA]BB-(Stable)	March 2017 [ICRA]B+(Stable)	-	-
Term Loan	Long Term	9.87	9.87	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	-	-
Unallocated Limit	Long Term	0.38	-	[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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.50	[ICRA]BB- (Stable)
NA	Term Loan	FY2017	NA	FY2024	9.87	[ICRA]BB- (Stable)
NA	Unallocated Limit	NA	NA	NA	0.38	[ICRA]BB- (Stable)

Source: Daman Ganga Packaging Solutions LLP

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