

Rating Rationale

08 July 2020

Archidply Industries Limited

Brickwork Ratings removes the ratings of the Bank Loan Facilities of Archidply Industries Limited from Credit Watch with Developing Implications and reaffirms the ratings for the revised Bank Loan Facilities of Rs. 81.57 Crores

Particulars:

Facility**	Amount (Rs Cr)		Tenure	Rating*	
	Previous	Present		Previous (April 2020)	Present
Fund Based					
Cash Credit^	70.00	54.00	Long Term	BWR BBB Credit Watch with Developing Implications	BWR BBB/Stable Removal from Credit Watch and Reaffirmation
Term Loans	8.66	8.07			
Bill Discounting	2.00	-	Short Term	BWR A3+ Credit Watch with Developing Implications	BWR A3+ Removal from Credit Watch and Reaffirmation
Non-fund Based					
Letter of Credit^	36.00	15.00			
Bank Guarantee	6.00	4.50			
Total	122.66	81.57	Rupees Eighty One Crores and Fifty Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank loan facilities are provided in Annexure-I

^Two way interchangeability between Bank of Baroda CC and LC limits to the extent of Rs. 10.00 Crs.

The ratings were placed on Credit Watch with Developing Implications on 05Nov2019 in view of the proposed Scheme of Arrangement (Demerger/Scheme) between the Company and the Archidply Decor Limited (ADL). The Company was in the process of demerger of its Chintamani undertaking to Archidply Decor Limited (ADL) with the Appointed Date of 01Apr2018. ADL is currently an unlisted company. The Scheme received the approval of the Honourable NCLT, Allahabad Bench on 08Jan2020 and the other formalities were in progress. The ratings were continued on Credit Watch with Developing Implications in April 2020 pending finalisation of the revised audited financial results of AIL (post-demergers) for FY19 along with the audited financial results for FY20 and taking into account the uncertainties related to the impact of Covid-19 on the Company's business. The revised audited financial results of AIL (post-demergers) for FY19 along with the audited financial results for FY20 were announced on 29Jun2020. As per the Scheme, the bank facilities availed by AIL are being bifurcated between AIL & ADL. The bank facilities with SBI have already been



bifurcated and those with Bank of Baroda are in the process of bifurcation. The revised amount currently being rated is that of the bank facilities which AIL will retain post-bifurcation.

BWR has resolved the Credit Watch after assessing the impact of the Scheme on the demerged company's business risk and financial risk profiles and obtaining other updates. Accordingly, the ratings are reaffirmed for the revised bank loan facilities of the demerged Archidply Industries Limited, post Scheme.

Rating Action/Outlook

BWR has principally relied upon the audited financials of the demerged company for FY19 and FY20, publicly available information and information/clarifications provided by the company's management.

The ratings factor BWR's belief that the business profile of AIL remains stable post the Scheme of Arrangement. Though there is some moderation in revenue post demerger, the profitability and other financial indicators including debt protection metrics have not been impacted. The ratings continue to reflect the operational track record of the company, demonstrated operating capabilities and established distribution network, experienced management and moderate financial risk profile marked by low gearing, moderate debt coverage metrics and liquidity. However, the ratings remain constrained by thin profitability margins, moderately stretched cash conversion cycle, working capital intensive nature of operations, risks of substitutes, intensely competitive and fragmented laminates and decorative plywood market and disruption in business due Covid-19.

The Covid-19 related disruptions are likely to have some adverse impact on the revenue streams of Archidply Industries Limited during FY21. The company, in accordance with the government guidelines, had shut its manufacturing facilities during the lockdown. BWR notes that AIL has availed the relief under the RBI moratorium package announced on 27Mar2020 with its lenders and its scheduled payments to the lenders have been deferred in the interim, with the approval of the lenders. BWR would not be considering such non-payments as default for the time being. As part of the moratorium package, the company has got relief for term loan instalments and Cash Credit interest payment from SBI during both Moratorium 1.0 and 2.0 while with Bank of Baroda, the moratorium relief has been received for Cash Credit interest payment for Moratorium 2. While formal communication of approval is yet to be received by the company from its lenders till date for either Moratorium 1.0 or Moratorium 2.0, the bankers have confirmed that the benefits have been extended to the company. BWR will continue to monitor the developments and analyse the impact, if any, on the company's credit profile.

Key Rating Drivers

Credit Strengths:

- **Established operational track record and experienced promoters:** The promoters have over four decades of experience in manufacturing of laminates and decoratives. The company is engaged in manufacturing of Plywoods (Marine Plywood, Fire Retardant Plywood, Shuttering Plywood, Densified Film Faced Plywood, BWR & MR Plywood, Lamyply and Lamyboard), Block Boards and Decorative Laminates (range from 0.8mm to 15mm and post form laminates). The company has



installed capacity of 68,50,000 square metres of plywood and blackboards and 48,00,000 sheets of decorative laminates (sunmica) per annum as on 31Mar2020. It has state of the art manufacturing unit in Rudrapur, Uttarakhand. Currently, Mr. Deen Dayal Daga is the Chairman and Mr. Rajiv Daga the CEO and Managing Director of the company. The established presence in the market over a long period and promoters' understanding of the industry dynamics are beneficial for the company's business.

- **Diversified customer and supplier base:** The company has limited customer and supplier concentration risk as the sales and purchases are not concentrated with a few customers/suppliers so as to have an adverse affect on business due to business problems of any customer/supplier. The company imports chemicals from Singapore and China and papers from China and a few European nations besides sourcing those and other raw materials like timbers, papers, chemicals, particle boards etc. from Kerala, Maharashtra, Rajasthan, Uttarakhand, Delhi and UP. Around 15% of the raw material is imported. The products are mostly sold in Indian market with around 3-4% exported to countries like Belgium, Israel, Vietnam, UAE and Philippines.
- **Moderate Credit risk profile :** The company's operating income and TNW declined post-demerger due to transfer of business, assets and liabilities of Chintamani unit to Archidply Decor Limited. However, the profitability ratios for FY19 improved post-demerger. The decline in TNW from Rs. 133.46 Crs. as on 31Mar2019 (pre-demerger) to Rs. 85.84 Crs. as on 31Mar2019 (post-demerger) was primarily due to writing off of the debit balance of Rs. 44.22 Crs. of Demerger Reconstruction Adjustment Account against the Security Premium Account of the company arising out of Scheme of Demerger. Net sales declined in FY20 to Rs. 267.31 Crs. from Rs. 274.56 Crs. in FY19 (post-demerger) primarily due to slowdown of Indian economy in FY20 and Covid-19 impact in Q4FY20. EBITDA and PAT also declined in FY20 due to decline in net sales. Total debt declined as on 31Mar2020 primarily due to decline in working capital utilization. Decline in total debt and incremental increase in TNW led to marginal improvement in both gearing (0.65 time) and financial leverage (1.21 times) as on 31Mar2020. Debt coverage metrics were adequate as on 31Mar2020 with ISCR at 2.53 times and DSCR at 2.05 times. Current Ratio is adequate at 1.47 times as on 31Mar2020.
- **Pan-India presence:** AIL has 27 Branch Offices, 2000 Retailers and 8 warehouses ensuring pan-India presence of its business. The manufacturing unit at Rudrapur, Uttarakhand is situated closer to the sources of indigenously available raw materials ensuring availability at competitive cost in states of UP, Delhi and Uttarakhand itself. The company sold its products to almost every Indian state in FY20.

Credit Challenges:

- **Thin profitability and working capital intensive operations:** Operating profit and net profit margins for FY20 are 6.33% and 1.41% respectively. Operations are working capital intensive leading to reliance on working capital borrowing from banks with associated interest and finance costs. However, as the company is currently not planning any debt-financed capital expenditure, low term loan repayments and relatively adequate net cash accruals could help the company partly finance its



working capital needs with internal accruals, helping consolidate gearing and debt service metrics in medium term. Cash Conversion Cycle contracted from 156 days as on 31Mar2019 to 135 days as on 31Mar2020.

- **Intense competition in industry:** The Indian plywood industry is highly fragmented with ~75% of the market share controlled by the unorganised sector, while the remaining 25% is with the organised segment. The organised players face tough competition from unorganised players on account of the margin-based competition offered by the latter. Due to the high competition, any variation in input cost hits the margins due to limited flexibility to pass on that cost to the customers. In this scenario, the company needs to rely on an increase in scale of operations, augmentation of sales volume, diversification, integration across the value chain, long term contracts with buyers and suppliers and establishment of its strong brand in the market to win over its competition. Besides these, the company's products also have to compete with various plastic-based substitutes and cheap imports available in the market.
- **Impact of Covid-19:** During the Covid-19 related lockdown, the company's operations were halted since 24Mar2020 leading to disruptions in movement of raw materials and finished goods and in cash collections. Post-lockdown, operations are slowly normalising. During May 2020, the company operated at around 35% of normal level which further improved to 50-55% in June 2020. BWR believes that with its operational track record, manufacturing capacity and established distributors/dealers network, the company may be able to normalize its operations by Q3FY21.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company does not have any subsidiary.

Rating Sensitivities

Going forward, ability of the company to normalize the business operations leading to sustained improvement in the scale of operations and cash accruals, along with maintenance of the working capital cycle and capital structure are key rating sensitivities.

Positive: Given the ongoing weakness in the macro-economic environment and the impact on the sector, a rating upgrade in the near term appears unlikely.

Negative:

- Larger than expected delay in the normalization of business operations leading to substantial loss in revenue
- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics
- Stretch in the working capital cycle



Liquidity Position: Adequate

The company's net cash accrual for FY20 is Rs. 8.28 Crs. against the debt repayment obligations of ~Rs. 2.12 Crs. over the next 12 months. Current ratio at 1.47 times as on 31Mar2020 is adequate. Trade receivables were 2.64 times the trade payables as on 31Mar2020. The fund based working capital utilization in Q1FY21 was ~85-90%. The company's per quarter interest and term loan repayment obligations are Rs. 1.35 Crs. and Rs. 0.50 Cr. respectively for Q1FY21 and Q2FY21. The company is availing RBI moratorium for its term loan and working capital facilities. The company has been sanctioned Covid Emergency Loan of Rs. 6.00 Crs. by its lenders which is unutilized. The company has realised part of its Rs. 73.02 Crs. of receivables as on 31Mar2020 in Q1FY21. It has also registered sales post-lockdown in May and June 2020. Based on sufficient net cash accruals, realisation of sales and receivables in Q1FY21, cash & cash accruals of ~Rs. 3 Crs, adequate Current Ratio, moratorium on term loan repayment till August 2020 and availability of unutilized Covid Emergency credit line of Rs. 6 Crs., the company's liquidity position is adequate

About the company

Archidply Industries Ltd was incorporated in 1995 in Bengaluru, Karnataka. Its registered office changed to Rudrapur, Udham Singh Nagar, Uttarakhand w.e.f. 28Feb2018. Post-demerger, the company is engaged in manufacturing of Plywoods (Marine Plywood, Fire Retardant Plywood, Shuttering Plywood, Densified Film Faced Plywood, BWR & MR Plywood, Lamyply and Lamyboard), Block Boards and Decorative Laminates (range from 0.8mm to 15mm and post form laminates). The manufacturing unit of AIL is located in Rudrapur, Uttarakhand. The demerged undertaking, viz. the Chintamani unit of Karnataka manufactures Particle Boards (plain, veneered and pre laminated particle board both in interior and exterior grade) and Decorative Veneers (Teak, natural exotic veneers, reconstituted veneers and dyed veneers). The Chintamani unit has been demerged into Archidply Decor Limited (a sister company) on 01Feb2020 w.e.f. 01Apr2018.

The company's products are sold under the brands Archid, Archid Gold, Archid Classic, Silvi, Ojus, Archidlam, Monarchply and Monarchlam. The clientele list includes reputed entities from Banks & Insurance, Educational Institutes, Government Projects, Hospitals, Hotels, Multiplexes, Corporates, Apartment Complexes, Retails, Universities and Builders. AIL's products are sold domestically as well as exported.

Mr. Deen Dayal Daga is the Chairman. His sons, Mr. Rajiv Daga and Mr. Shyam Daga are the MD & CEO and the Executive Director of the company.

The company's shares are listed on Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India (NSE).

Key Financial Indicators

Key Parameters	Units	Pre-demerger	Post-demerger	
		FY19	FY19	FY20
Result Type		Audited	Audited	Audited
Operating Income	Rs. Crs.	330.42	274.56	267.31
EBITDA	Rs. Crs.	19.78	19.81	16.92
Profit After Tax	Rs. Crs.	4.46	7.72	3.78
Tangible Net Worth	Rs. Crs.	133.46	85.84	86.48
Total Debt : Tangible Net Worth	Times	0.64	0.70	0.65
Current Ratio	Times	1.46	1.44	1.47

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - Nil

Rating History For The Previous Three Years [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure	Amount (Rs. Crs.)	Rating	05Nov2019	26Jul2018	16Jun2017
Fund Based						
Cash Credit*	Long Term	54.00	08Jul2020 BWR BBB/Stable	BWR BBB Credit Watch with Developing Implications	BWR BBB/Stable	BWR BBB/Stable
Term Loans		8.07	28Apr2020 BWR BBB Credit Watch with Developing Implications			
Bill Discounting	Short Term	-	08Jul2020 BWR A3+ 28Apr2020 BWR A3+ Credit Watch with Developing Implications	BWR A3+ Credit Watch with Developing Implications	BWR A3+	BWR A3+
Non-fund Based						
Letter of Credit*		15.00				
Bank Guarantee		4.50				
Total		81.57	Rupees Eighty One Crores and Fifty Seven Lakhs Only			

Note: Initially rated amount on 12Mar2014 was Rs. 93.73 Crs. with rating assigned as BWR BBB-/Stable/A3. Rated amount on 16Mar2016: Rs. 91.78 Crs., rated amount on 16Jun2017: Rs. 100.33 Crs., rated amount on 26Jul2018: Rs. 127.44 Crs., rated amount on 05Nov2019: Rs. 123.71 Crs., rated amount on 28Apr2020: Rs. 122.66 Crs.

*Two way interchangeability between Bank of Baroda CC and LC limits to the extent of Rs. 10.00 Crs.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

<ul style="list-style-type: none"> • General Criteria 	<ul style="list-style-type: none"> • Manufacturing Companies
<ul style="list-style-type: none"> • Approach to Financial Ratios 	<ul style="list-style-type: none"> • Short Term Debt

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Archidply Industries Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	SBI, South Extension Branch, New Delhi	Cash Credit	40.00	-	40.00
2		Term Loan	8.07	-	8.07
3	Bank of Baroda, CFS Branch, Bengaluru	Cash Credit*	14.00	-	14.00
4		Letter of Credit*	-	15.00	15.00
5		Bank Guarantee	-	4.50	4.50
TOTAL - Rupees Eighty One Crores and Fifty Seven Lakhs Only					81.57

*There is two way interchangeability between Bank of Baroda sanctioned CC and LC limits to the extent of Rs. 10.00 Crs.



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