

Rating Rationale

Archidply Industries Limited

26 July 2018

Brickwork Ratings reaffirms BWR BBB/A3+ for the Bank Loan Facilities of Rs.127.44 Crs of Archidply Industries Limited (AIL or ‘the company’)

Particulars

Facility#	Amount(Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund Based			Long Term	BWR BBB Outlook: Stable	BWR BBB <i>(Pronounced BWR Triple B)</i> Outlook: Stable Reaffirmed
Cash Credit	60.00	70.00			
Term Loans	1.33	13.44			
Bill Discounting	2.00	2.00	Short Term	BWR A3+	BWR A3+ <i>(Pronounced BWR A Three Plus)</i> Reaffirmed
Non Fund Based					
Letter of credit	31.00	36.00			
Bank Guarantee	6.00	6.00			
Total	100.33	127.44	Rupees One Hundred and Twenty Seven Crores and Forty Four Lakhs Only		

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

Annexure I shows the bank wise facilities

Ratings Reaffirmed

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company upto FY18, projected financials upto FY20, publicly available information and information/clarifications provided by the management.

The ratings continue to draw strength from the experienced management, established track record, strong brand, pan India presence with dedicated channel partners and wide distribution network and consistent growth in turnover. The ratings continue to be constrained by high inventory, stretched working capital cycle, low profitability, volatility in raw material supplies,



working capital intensive nature of operations and intense competition from a large number of unorganised and organised players that restricts pricing flexibility.

Going forward, growth in the scale of business of the company, effective working capital utilisation with reduction in inventory levels and overall strengthening of its credit profile will be the key rating sensitivities.

While reaffirming the ratings, BWR has taken note of the approval by AIL's Board on 30 May 2018 for the proposed Scheme of Arrangement for demerger of the Chintamani Unit of Archidply Industries Limited (Demerged Company) to Archidply Decor Limited (ADL) (Resulting Company). ADL is a newly incorporated company. The Chintamani unit to be demerged contributed around Rs. 67.31 Crs (21.95%) of the total turnover of AIL in FY18. The demerger is subject to approval from National Company Law Tribunal, Securities and Exchange Board of India and creditors. As per the management, the detailed scheme of demerger is under preparation and submission of the scheme and approval will take at least 6-9 months. The rationale for the demerger is to achieve geographical operational efficiencies, unlock shareholders value and to introduce different strategies for growth. Upon the Scheme becoming effective ADL shall, for every 4 shares of AIL, allot to each member of AIL, 1 share of ADL. ADL shall be listed on BSE and NSE.

Presently, full details of the scheme and impact on the financial and business profile of AIL are not known. BWR shall monitor the developments for clarity on the scheme of demerger over the next 6-9 months to assess the impact on the ratings at the appropriate time.

Rating Outlook: Stable

BWR believes **Archidply Industries Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Key rating drivers

Established market position & experienced management - Archidply Industries Limited is the flagship company of the Archidply group. The Archidply Group has been associated with plywood manufacturing for more than 37 years. The brand "Archidply", has positioned itself in

the premium segment of the wood panel and decorative surfacing products. The promoters are well experienced in this industry.

Pan India presence & strategic location of the manufacturing units - AIL has 18 branches all across India and presence in more than 300 cities with more than 13,000 distributors, dealers, sub-dealers and retailers. AIL's plants are strategically located near the source of raw-material and this ensures adequate availability of raw-material at a competitive cost.

Operating performance and working capital intensity- The company's scale of operations is modest with total operating revenue of Rs.305.30 Crs in FY18 as against Rs.273.08 Crs in FY17. However, during FY18, PAT showed a steep decline by around 62% to Rs.2.51 Crs due to increased depreciation and provisions. The company operations are working-capital intensive, marked by large receivables and elongated inventory days. AIL reported receivables days of 101 in FY18 as against 92 days in FY17 and inventory days of 125 in FY18 as against 120 days in FY17.

Financial risk profile - Tangible Net Worth was moderate at Rs.128.39 Crores as on March 31 2018. Overall gearing was low at 0.47 times as on March 31 2017 and 0.54 times as on March 31 2018. Net profit margin was low at 0.82% in FY18. Operating profit margin declined to 6.21% in FY18 as against 8.41% in FY17.

Competition - The Indian plywood market is dominated by unorganized players. Although AIL enjoys a good position in the organized plywood market, there are a number of players operating in both organized and unorganized plywood segment. Hence, the profitability is expected to remain under pressure due to high competitive intensity and fragmented industry structure. The Company is also exposed to raw material price volatility which may adversely impact profitability.

Analytical approach

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

About the Company

Archidply Industries Limited, established in 1995, is engaged in manufacture of wood panel products and decorative surfacing products. During April 2018, the company's registered office was shifted to Rudrapur, Uttarakhand from Bangalore, The manufacturing facilities are located in Chintamani, Karnataka and Rudrapur, Uttarakhand. The Chintamani unit is engaged in



manufacturing of Particle Boards (plain, veneered & pre laminated for both interior and exterior grade) and Decorative Veneers (teak, natural exotic veneers, reconstituted & dyed veneers). Rudrapur unit manufactures plywoods, block boards, flush doors and decorative laminates. AIL is listed on BSE and NSE. The products are sold under the brands Archid, Archid Gold and Archid Classic. The company has started its flagship store of the Italian furniture and decorative veneers 'Bon Vivant' (a luxurious lifestyle brand) at Richmond Road, Bangalore in 2017. Accessory products like table tops, decorative solid wood flooring and decorative lumber are the other product offerings under the Bon Vivant brand.

Mr. Deendayal Daga is the Chairman. Mr. Shyam Daga and Mr. Rajiv Daga, sons of Mr. Deendayal Daga, are the Executive Director and Managing Director respectively. Mr. Mohammed Shahid Aftab, Mr. Bharathkumar Rathi and Smt. Shanthi Mallar are the independent directors.

Financial Performance

AIL reported Net Operating Income of Rs.305.30 Crs and Net Profit of Rs 2.51 Crs for FY18 as against Net Operating Income of Rs.273.02 Crs and Net Profit of Rs 6.70 Crs for FY17. Total tangible networth as on 31st March 2018 was Rs.128.39 Crs. Total debt (working capital loans) stood at Rs 69.47 Crs as on March 31 2018. Further, AIL reported net loss of Rs.3.16 Crs in Q4FY18, mainly due to the provision of Rs.1.23 Crores towards the advance made to Waratayar Veneers Industries Pvt Ltd, Myanmar for supply of Face Veneers, as the production at Waratayar Veneers Industries Pvt Ltd was stopped due to non availability of timber and the increase in depreciation due to the capital expenditure by company for expansion of capacity of laminates division.

The key financial indicators are summarized in Annexure II.

Rating History for the last three years:

Sl. No	Facility	Current Rating (July 2018)			Rating History		
		Type	Amount (Rs. Crs)	Ratings	16 Jun 2017*	16 Mar 2016**	31 Mar 2015***
1	Fund Based	Long Term	83.44	BWR BBB (Outlook: Stable) (Reaffirmed)	BWR BBB (Outlook: Stable) (Reaffirmed)	BWR BBB (Outlook: Stable) (Reaffirmed)	BWR BBB (Outlook: Stable) (Upgraded)
		Short Term	2.00				
2	Non Fund Based	Short Term	42.00	BWR A3+ (Reaffirmed)	BWR A3+ (Reaffirmed)	BWR A3+ (Reaffirmed)	BWR A3+ (Upgraded)
Total			127.44	Rupees One Hundred and Twenty Seven Crores and Forty Four Lakhs Only			

* Rated Amount was Rs.100.33 Crs; ** Rated Amount was Rs.91.78 Crs; *** Rated Amount was Rs.96.26 Crs.

Note - Initially BWR had rated bank loans of Rs.93.73 Crs on 12 Mar 2014 and assigned ratings of BWR BBB- (Outlook: Stable)/A3.

Status of non-cooperation with previous CRA:Not applicable

Any other information: Not applicable

Hyperlinks/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Archidply Industries Ltd
Annexure I
Bank Loan Facilities

Amount Rs. Crs	Vijaya Bank	State Bank of India	Total (Rs. Crs)
Cash Credit	30.00	40.00	70.00
Term Loan -II Rudrapur	-	10.00*	10.00
Term Loan -III Chintamani	2.88	-	2.88
Term Loan -IV Kolkata	0.56	-	0.56
Letter of Credit	36.00	(10.00) Sub limit of CC	36.00
Bank Guarantee	6.00	-	6.00
Bill discounting	2.00	-	2.00
Total	77.44	50.00	127.44

* Includes undisbursed amount of Rs.2.48 Crs

Note - At the time of the previous rating, the company had availed facilities from Vijaya Bank only.

Annexure II Key Financial Indicators

		31 Mar 2017 Audited	31 Mar 2018 Audited
Operating Income	Rs. Crs	273.02	305.30
EBIDTA	Rs. Crs	22.95	18.96
PAT	Rs. Crs	6.70	2.51
Tangible Netwoth	Rs. Crs	126.34	128.39
Total Debt/ TNW	Times	0.47	0.54
Current Ratio	Times	1.44	1.37

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.



DISCLAIMER

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