



RATING RATIONALE

17 November 2020

Disha Industries Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 33.75 Crores of Disha Industries Pvt Ltd

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Sept, 2019)	Present
Fund Based	16.37	18.75	Long Term	BWR BB-Stable Upgraded	BWR BB-Stable Reaffirmed
Non-fund Based	5.00	15.00	Short Term	BWR A4 Reaffirmed	BWR A4 Reaffirmed
Total	21.37	33.75	INR Thirty Three Crore and Seventy Five Lakhs Only		

The company has an interchangeability option of Rs.5.00 Cr. to be utilized as Cash Credit in addition to Rs.18.75 Cr.

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

** Details of Bank facilities in Annexure-I

RATING ACTION / OUTLOOK

Brickwork rating has upgraded the long-term of Disha Industries Pvt Ltd (DIPL) at BWR BB-with a Stable Outlook on account of experienced promoters, healthy capital structure and strong debt protection metrics.

The 'stable' outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the Company's performance is likely to be maintained in the medium term.

The rating, however, is constrained by modest scale of operations, intense competition and fragmented nature of the industry, geographical concentration of risk, susceptibility to volatility in prices of raw materials and impact of Covid-19 Outbreak.

KEY RATING DRIVERS

Credit Strengths :

- **Experience of the Promoters :** Promoters have been in the same line of business of manufacturing of Kraft Paper for more than two decades which has enabled them to establish relations with customers & suppliers and to understand the intricacies of the business.
- **Moderate financial risk profile :** The Company reported healthy capital structure with TNW of Rs.22.98 Cr owing to which Gearing is low at 1.19X in FY20. The company has been projecting a TNW and gearing of Rs.26.77 Cr. and 1.15X respectively. Debt Protection Metrics are healthy i.e. ISCR at 2.65X in FY20 (Prov.). ISCR has increased from 2.25X in FY19 mainly on the account of increase in operating profitability in FY20 (Prov.).

Credit Risks :

- **Modest Scale of operations :** The scale of operations continues to remain modest. The company reported Total Operating Income amounting Rs.141.95 Cr. and Rs.132.76 Cr. in FY18 and FY19 respectively, registering a dip of almost 6.50% in FY19. As per the FY20 (Prov.), the company had achieved a revenue of Rs.103.43 Cr. in FY20, a dip of further 22.21%. Reason for decline in revenue accounts to decline in prices of Kraft Paper and the plant shut down for two months. In 7MFY21 the company achieved a revenue of Rs.52.00 Cr. Profitability Margins are weak i.e. Net Profit Margin and Operating Profit Margin at 1.86% and 8.29% in FY20 (Prov.). However, both the ratios have been projected to increase to 3.08% and 9.34% in FY21.
- **Geographical Concentration risk :** The company generates 70-80% of its revenue from the state of Uttar Pradesh and Delhi exposing the company to geographical concentration risk.
- **Intense Competition and fragmented nature of industry :** The industry is highly competitive characterized by the presence of a large number of players in the unorganized segment. Numerous players in the industry limit the bargaining power of the company and have adverse effects on the profitability of the company.
- **Susceptibility to volatility in prices of raw materials :** Major raw material of the company is waste paper, prices of which are highly volatile. The company's margins are primarily affected by price fluctuation of raw materials.
- **Impact of Covid-19 Outbreak -** Due to outbreak of the pandemic coronavirus COVID-19 in March 2020 which triggered a nationwide lockdown have disrupted the supply and demand in the short term. Although the company deals in an essential commodity, it has been exempted from various restrictions during the lockdown period which in turn may not impact the company's business as much.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the company's ability to maintain its current capital structure would be the key sensitivities over the short to medium term.

Positive : The rating outlook may be revised to positive if the company improves the topline and the bottomline. Maintaining the financial risk profile would also be the credit positive.

Negative : The rating may be downgraded if there is a significant dip in revenue leading to deterioration of profitability margins. Deterioration of current capital structure and liquidity position would be a credit negative.

LIQUIDITY POSITION (Stretched)

The liquidity position of the company is stretched marked by weak Net Cash Accruals of Rs.5.02 Cr in FY20 (Prov) against debt obligations of Rs.5.19 Cr. Other liquidity indicators also stand stretched marked by almost 99% average utilization in Cash Credit in the last 6 months. However, to support the liquidity the company has Unsecured loans as well as long term interest free advance from customers. The company has availed both the Moratoriums under RBI-Covid 19 guidelines.

COMPANY PROFILE

Disha Industries Pvt Ltd was incorporated in December, 1995 having head office in Gautam Budh Nagar in Delhi NCR area. It is engaged in manufacturing of Kraft paper from recyclable waste paper and the unit is located in Muzaffarnagar, Uttar Pradesh. The plant started its operations wef February 2013. Prior to 2013 the company was involved in paper trading. The company was started by Mr. Ajay Paliwal and Mr. Suraj Prakash who have over two decades of experience in the paper trading business. The paper manufactured has a GSM range from 120-220, Deckle(400 cms), BF(16 to 30) (BF means Burst factor is a measurement used for testing the paper strength). The company is engaged in manufacturing of Kraft papers of various kinds which are used in making corrugated boxes, carry bags etc. It primarily caters to the packaging industry. Main raw material used in manufacturing of kraft papers is waste paper and currently, 40-50% of the waste paper used in manufacturing is imported. Customer base of DIL is mainly in the northern states of India with UP and Delhi constituting 70-80% of the revenues.

KEY FINANCIAL INDICATORS (in INR Cr)

Key Parameters	Units	2019	2020
Result Type		Audited	Provisional
Operating Revenue	₹ Cr	132.76	103.28
EBITDA	₹ Cr	7.97	8.56
PAT	₹ Cr	1.66	1.92
Tangible Net worth	₹ Cr	21.06	22.98
Total Debt/Tangible Net worth	Times	1.22	1.19
Current Ratio	Times	1.15	1.33

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

S. No	Name of Instrument	Current Rating (November, 2020)			Rating History						
		Type(Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	2019		2018		2017		
1	Bank Loan Facility	FB	18.75	BWR BB-Stable (Reaffirmed)	30.09.2019			09.08.2018			-
					FB	16.37	BWR BB-Stable Upgraded	FB	22.83	BWR B Stable Upgraded	
2		NFB	15.00	BWR A4 Reaffirmed	NFB	5	BWR A4 Reaffirmed	NFB	5	BWR A4 Upgraded	-
					15.1.2018						
					FB & NFB	30.87	BWR D Downgraded				-

Initial Rating was assigned in June, 2015 as BWR B+/A4.



COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

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Disha Industries Pvt Ltd

ANNEXURE I Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	ShortTerm (₹ Cr)	Total (₹ Cr)
1	Indian Bank	Cash Credit	18.75	-	18.75
2		Letter of Credit	-	15.00	15.00
TOTAL					33.75

Total Rupees Thirty Three Crores and Seventy Five Lakhs only.



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