



## RATING RATIONALE

30 Sept, 2019

**Disha Industries Pvt. Ltd.**

### **Brickwork Ratings revises ratings for the Bank Loan Facilities of ₹ 21.37 Crores of Disha Industries Pvt. Ltd.**

#### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Aug, 2018)	Present
Fund based	22.83	16.37	Long Term	BWR B Outlook: Stable	BWR BB- Outlook: Stable (Upgraded)
Non Fund Based	5.00	5.00	Short Term	BWR A4	BWR A4 (Reaffirmed)
<b>Total</b>	<b>27.83</b>	<b>21.37</b>	<b>INR Twenty One Crores and Thirty Seven Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://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 rating of Disha Industries Pvt. Ltd. to BWR BB- with a Stable Outlook on account of vast experience of the promoters in the same field of manufacturing of Kraft Paper for more than two decades. The rating is further supported by an increase in Tangible Net Worth, moderate gearing, above average debt protection metrics and moderate profitability.

The rating, however, is constrained by weak liquidity, decline in total operating income, intense competition and susceptibility to volatility in the prices of raw materials.

#### 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.

- **Increase in Tangible Net Worth :** TNW has increased to Rs.21.03 Cr. in FY19 as compared to Rs.18.06 Cr. in FY18. The same owes to infusion of capital by the Directors and the accumulation of profits over the years.
- **Moderate Financial Risk Profile :** Gearing of 1.31X in FY19 is considered moderate. The same has improved from 1.90X in FY18 due to infusion of Capital. Debt Protection Metrics are above average i.e. ISCR at 2.48X in FY19 owing to high Operating profitability. DSCR stood weak at 1.00X in FY19, though the same has improved from previous year i.e. 0.91X in FY18.

#### **Credit Risks :**

- **Stretched Liquidity :** The liquidity is stretched marked by low current ratio at 1.17X and 1.24X in FY18 and FY19 (Prov) respectively. Though, the other liquidity indicators stood moderate as marked by comfortable Conversion Cycle of 33 and 37 Days in FY18 and FY19 (Prov.) respectively. The same owes to credit terms enjoyed by the company and also efficient inventory management.
- **Decline in Total Operating Income :** According to the management certified provisional financials as well as the GST returns, the company has achieved net sales of Rs.132.76 Cr. in FY19 registering a dip of 6% in FY19. The sale dip owes to decrease in the prices of finished goods, though the volume of the goods sold remained at the same level as of FY18 i.e. 54,300 MT. The management has also informed that the company has clocked a revenue of Rs.34.09 Cr. in Q1 of FY20. The same has been verified from the GST returns. Till August 2019, the firm has achieved Rs.56.78 Cr. in FY20.
- **Intense Competition and Susceptibility to volatility in the prices of raw materials -** Industry is characterized by intense competition from players in the unorganized as well as organized sectors. The company's margins are primarily affected by price fluctuation of raw materials.

#### **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 increase the scale of the business and manage its working capital efficiently would be key sensitivities over short to medium term.

Positive: The rating outlook may be revised to positive if the company is able to substantially improve the topline and bottomline.



Negative: The rating may be downgraded if there is a deterioration of liquidity profile.

### **LIQUIDITY POSITION (Stretched)**

The liquidity position of the company is weak, marked by low current ratio at 1.17X and 1.24X in FY18 and FY19 (Prov) respectively. Though, the other liquidity indicators stood moderate as marked by comfortable Conversion Cycle of 33 and 37 Days in FY18 and FY19 (Prov.) respectively. The same owes to matching credit terms with the suppliers and the customers, enjoyed by the company and efficient inventory management. Debt Protection Metrics i.e. ISCR stood above average at 2.48X in FY19 owing to high Operating profitability. DSCR stood weak at 1.00X in FY19, though the same has improved from previous year i.e. 0.91X in FY18. As per banker's feedback, there has been 100% utilization of CC. Overall liquidity position of the company is stretched.

### **COMPANY PROFILE**

Disha Industries Pvt Ltd was incorporated in 1995. It is engaged in manufacturing of Kraft paper from recyclable waste paper and the unit is located in Muzaffarnagar, Uttar Pradesh. The paper mill has an annual capacity of 59,400 Mt. Tons. The plant started operations wef February 2013. Prior to 2013 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 paper trading business.

### **KEY FINANCIAL INDICATORS (in INR Cr)**

Key Parameters	Units	2018	2017
<b>Result Type</b>			
Operating Revenue	₹ Cr	141.95	95.11
EBITDA	₹ Cr	8.78	9.52
PAT	₹ Cr	0.45	0.59
Tangible Net worth	₹ Cr	17.96	17.51
Total Debt/Tangible Net worth	Times	1.90	2.09
Current Ratio	Times	1.17	1.07

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NIL**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY : NA**

## RATING HISTORY

Instrument /Facility	Current Rating (September, 2019)			Rating History		
	Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	Aug, 2018	Jan, 2018	Jan, 2015
<b>Fund Based Cash Credit Term Loan</b>	Long Term	16.37	<b>BWR BB- Outlook: Stable (Upgraded)</b>	<b>BWR B</b> Outlook: Stable	<b>BWR D</b>	<b>BWR B+</b> Outlook:Stable
<b>Non Fund Based Letter of Credit</b>	Short Term	5.00	<b>BWR A4 (Reaffirmed)</b>	<b>BWR A4</b>		<b>BWR A4</b>
<b>Total</b>		<b>21.37</b>	<b>₹ Twenty One Crore and Thirty Seven Lakhs Only</b>			

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://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	Allahabad Bank	Cash Credit	12.50	-	12.50
2		Term Loan	3.87	-	3.87
3		Letter of Credit	-	5.00	5.00
<b>TOTAL</b>					<b>21.37</b>

**Total Rupees Twenty One Crores and Thirty Seven Lakhs only.**

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