

## Rating Rationale

05 Nov 2019

### Archidply Industries Limited

**Brickwork Ratings reaffirms and places the rating of “BWR BBB/A3+” on Credit Watch with Developing Implications for Bank Loan Facilities of Rs. 123.71 Crores of Archidply Industries Limited (‘AIL’ or ‘the Company’)**

#### Particulars:

Facility**	Amount (Rs Cr)		Tenure	Rating	
	Previous	Present		Previous^^ (July 2018)	Present
<b>Fund Based</b>					
Cash Credit^	70.00	70.00	Long Term	BWR BBB/Stable	<b>BWR BBB Credit Watch with Developing Implications</b>
Term Loans	13.44	9.71			
Bill Discounting	2.00	2.00	Short Term	BWR A3+	<b>BWR A3+ Credit Watch with Developing Implications</b>
<b>Non-fund Based</b>					
Letter of Credit^	36.00	36.00			
Bank Guarantee	6.00	6.00			
<b>Total</b>	<b>127.44</b>	<b>123.71</b>	<b>Rupees One Hundred and Twenty Three Crores and Seventy One Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

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

^Two way interchangeability between Vijaya Bank (now Bank of Baroda) CC and LC limits to the extent of Rs. 10.00 Crs. One way interchangeability in respect of SBI CC limit to LC/BG/BC sub-limits up to Rs. 10.00 Crs.

^^Rating Not Reviewed advisory was issued on 29Jul2019.

#### Rating Action/Outlook

The ratings reaffirmation continues to reflect the operational track record of the Company, experienced management, steady revenue growth and moderate financial risk profile marked by low gearing, modest debt coverage metrics and liquidity and current order book position lending near term revenue visibility. However, the ratings are 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.

The ratings have been placed on Credit Watch with Developing Implications in view of the proposed Scheme of Arrangement (Demerger/Scheme) between the Company and the Archidply Decor Limited (ADL). The Company is in the process of demerging of its Chintamani undertaking to Archidply Decor Limited (ADL) with the Appointed Date of 01Apr2018. ADL is currently an unlisted company. At the time of the last review, BWR had noted that the Board of Directors had approved the Scheme of Arrangement for demerger and vesting of Chintamani unit of AIL, the Demerged Company into ADL, the Resulting Company, subject to the approval of NCLT, NSE, BSE, Secured, Unsecured Creditors, Banks, other relevant regulatory authorities. The Scheme is pending for approval before the NCLT, Allahabad Branch and is subject to various other statutory approvals. BWR is in discussions with the management to ascertain the impact of the Scheme on the company's business risk and credit risk profile and will review the rating once there is clarity.

### Key Rating Drivers

#### Credit Strengths:

- **Established operational track record and experienced promoters:** The promoters have over two decades of experience in manufacturing of laminates and decoratives. The Company is engaged in manufacturing of two broad product segments: Wood Based Products (Decorative Laminates, Decorative Veneers, Plywood & Block Board, Prelaminated Particle Board) and Paper Based Products (Laminated Sheets). The Company has installed capacity of 83,50,000 square metres of plywoods and blackboards including decoratives, 54,00,000 square metres of pre-laminated particle boards and 48,00,000 sheets of decorative laminates (sunmica) per annum as on 31Mar2019. It has state of the art manufacturing units in Chintamani, Karnataka and 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 mother ply, veneer and chemicals from Singapore and medium density fibreboard (MDF) from Malaysia besides sourcing those and other raw materials like timbers, papers, chemicals, particle boards etc. from Tamil Nadu, Karnataka, Andhra Pradesh, Assam, Delhi and UP. Around 30% of the raw material is imported. The products are mostly sold in Indian market with around 3-4% exported to countries like US, Singapore, Israel, Canada and Italy.
- **Financial performance:** Net sales improved in FY19 to Rs. 326.66 Crs. from Rs. 306.67 Crs. in FY18 primarily due to increase in sales of plywoods/blackboards. EBITDA and PAT also increased in FY19 due to decline in the prices of some raw materials. Total debt increased in FY19 primarily due to availment of a new term loan and increase in working capital utilization. Despite incremental increase in TNW, increase in total debt led to marginal deterioration in both gearing (0.64 time) and financial leverage (1.13 times) as on 31Mar2019. Due to improvement in EBITDA and PAT, debt coverage metrics improved marginally as ISCR increased from 1.61 times to 2.01 times and DSCR increased from 1.77 times to 2.07 times over the period. Current Ratio is adequate at 1.46 times as on



31Mar2019. The Company has reported revenue of Rs. 75.81 Crs. for Q1FY20 against Rs. 78.59 Crs. for Q1FY19.

- **Pan-India presence and strategic location of manufacturing units:** AIL has 27 Branch Offices, 2000 Retailers and 8 warehouses ensuring pan-India presence of its business. The Company expanded its existing warehouse in Bengaluru and established a new warehouse in Guwahati during FY19. The manufacturing units are situated closer to the sources of indigenously available raw materials ensuring availability at competitive cost.

#### **Credit Challenges:**

- **Thin profitability and working capital intensive operations:** Operating profit and net profit margins for FY19 are 5.99% and 1.35% respectively, lower by industry standards. The unutilized installed capacity has to be used to achieve economies of scale to improve profitability. Company's 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. Receivables grew faster in FY19 compared to the net sales and were at ~30% of net sales as on 31Mar2019. This led to marginal stretching of Days Receivables. However, the decline in Days Payables over same period also contributed to stretching of Cash Conversion Cycle from 126 days as on 31Mar2018 to 132 days as on 31Mar2019.
- **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 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 market.

#### **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

### Positive:

Substantial and sustained improvement in the scale of operations and cash accruals, along with maintenance of the working capital cycle and capital structure, leading to better business and financial risk profiles

### Negative:

- 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
- Any legal or operational issues arising out of demerger which may have negative implications.

**Proposed demerger:** The Company is in the process of demerging of its Chintamani undertaking to Archidply Decor Limited (ADL), a public company incorporated on 14Jun2017 with registered address at Udham Singh Nagar, Uttarakhand - 263153. In order to achieve geographical operational efficiencies and unlock shareholders value, the management of AIL has proposed to separate each business undertaking based on the commercial objectives and relevant geographies of the undertaking into separate company. The Appointed Date of proposed Scheme of Arrangement (demerger) is 01Apr2018. ADL is currently an unlisted company. The Board of Directors of the Company had, subject to the approval of NCLT, NSE, BSE, Secured, Unsecured Creditors, Banks, other relevant regulatory authorities, approved the Scheme of Arrangement for demerger and vesting of Chintamani unit of AIL, the Demerged Company into ADL, the Resulting Company. The first motion petition for approval was filed by the Company before the NCLT, Allahabad Bench on 08Feb2019. The Scheme was approved by the equity shareholders, secured and unsecured creditors as per statutory requirements on 29Jun2019. The final date of NCLT hearing is fixed for 19Nov2019. The proposed Scheme of Arrangement is expected to come into effect within 4 months from the date of approval by the NCLT. Upon the demerger coming into effect, ADL shall, for every 4 shares of AIL held by shareholders of AIL, allot 1 share of ADL. Post-demerger, ADL shall be listed on both BSE and NSE. Proportion of sales attributed to the Rudrapur unit and Chintamani unit in FY19 were ~82% and ~18% respectively. The sanctioned amount of the bank loan facilities being rated by BWR would be inherited by AIL and ADL in around 65:35 ratio post-demerger.

### Liquidity Position: Adequate

As on 31Mar2019, net cash accruals at Rs. 10.45 Crs. are adequate to cover the long term debt obligations (CPLTD) of Rs. 2.92 Crs. for FY20. Cash and cash equivalents are moderate at Rs. 10.53 Crs. as on 31Mar2019. Working capital utilization was high at around 89% with both banks. Currently, the working capital funding limit is ~21% of the net sales for FY19 and the Company has surplus internal accruals at its disposal to partly finance the working capital requirements. Current Ratio is moderate at 1.46 times as on 31Mar2019. Increase in Days Receivables and decline in Days Payables led to marginal stretching of Cash Conversion Cycle from 126 days to 132 days over the same period. Overall, due to adequate net cash accrual and EBITDA and low CPLTD, the liquidity position appears adequate.



## About the Company

Archidply Industries Ltd was incorporated on 05Sep1995 in Bengaluru, Karnataka. Its registered office changed to Rudrapur, Udham Singh Nagar, Uttarakhand w.e.f. 28Feb2018. The Company is engaged in the business of manufacturing two broad product segments: Wood Based Products (Decorative Laminates, Decorative Veneers, Plywood & Block Board, Prelaminated Particle Board) and Paper Based Products (Laminated Sheets). The manufacturing plants of AIL are located in Chintamani, Karnataka and Rudrapur, Uttarakhand. The Rudrapur unit manufactures Plywoods (Marine Plywood, Fire Retardant Plywood, Shuttering Plywood, Densified Film Faced Plywood, BWR & MR Plywood, Lamyply and Lamyboard), Block Board and Flush Doors (BWR & MR grade) and Decorative Laminates (range from 0.8mm to 15mm and post form laminates). The Chintamani unit 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 Company's products are sold under the brands Archid, Archid Gold, Archid Classic and Archidlam. During FY19, the Company launched two new brands: Monarchply and Monarchlam. The products of the Company comply with quality standards like GREENGUARD (USA), CE (Europe), Green label (Singapore) and ISI (India). 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. The Company was awarded the "Power Brand" India's most powerful symbol of brand excellence by London International Forum for Equality in FY19.

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. Mr. Mohammad Shahib Aftab, Mr. Bharath Kumar Hukumchand Rathi and Mrs. Shanti Varadaraj Mallar are the independent directors.

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	FY18	FY19
Result Type		Audited	Audited
Operating Income	Rs. Cr.	308.72	330.42
EBITDA	Rs. Cr.	16.11	19.78
Profit After Tax	Rs. Cr.	2.51	4.46
Tangible Net Worth	Rs. Cr.	128.39	133.46
Total Debt : Tangible Net Worth	Times	0.54	0.64
Current Ratio	Times	1.37	1.46



The Company reported Rs. 75.81 Crs. of operating income for Q1FY20 (unaudited).

**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 last three years

Facilities	Current Rating (November 2019)		Rating History			
	Tenure	Amount (Rs Cr)	Rating	26Jul2018 <sup>^</sup>	16Jun2017	16Mar2016
<b>Fund Based</b>						
Cash Credit*	Long Term	70.00	<b>BWR BBB Credit Watch with Developing Implications</b>	BWR BBB/Stable	BWR BBB/Stable	BWR BBB/Stable
Term Loans		9.71				
Bill Discounting	Short Term	2.00	<b>BWR A3+ Credit Watch with Developing Implications</b>	BWR A3+	BWR A3+	-
<b>Non-fund Based</b>						
Letter of Credit		36.00				BWR A3+
Bank Guarantee		6.00				
<b>Total</b>		<b>123.71</b>	<b>Rupees One Hundred and Twenty Three Crores and Seventy One Lakhs Only</b>			

**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.

<sup>^</sup>Rating Not Reviewed advisory issued on 29Jul2019.

\*Two way interchangeability between Vijaya Bank (now Bank of Baroda) CC and LC limits to the extent of Rs. 10.00 Crs. One way interchangeability from SBI CC limit to LC/BG/BC sub-limits upto Rs. 10.00 Crs.

### 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**

• <a href="#">General Criteria</a>	• <a href="#">Manufacturing Companies</a>
• <a href="#">Approach to Financial Ratios</a>	• <a href="#">Short Term Debt</a>

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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 II (Rudrapur)	9.11	-	9.11
3	Vijaya Bank, Corporate Banking Branch, Bengaluru (now Bank of Baroda)	Cash Credit*	30.00	-	30.00
4		Term Loan III (Chintamani)	0.21	-	0.21
5		Term Loan IV (Kolkata)	0.39	-	0.39
6		Letter of Credit*	-	36.00	36.00
7		Bank Guarantee	-	6.00	6.00
8		Bill Discounting (LC)	-	2.00	2.00
<b>TOTAL - Rupees One Hundred and Twenty Three Crores and Seventy One Lakhs Only</b>					<b>123.71</b>

\*There is two way interchangeability between Vijaya Bank (now Bank of Baroda) sanctioned CC and LC limits to the extent of Rs. 10.00 Crs. There is one way interchangeability from SBI sanctioned CC limit to LC/BG/BC sub-limits up to Rs. 10.00 Crs.



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