

Rating Rationale

28 Apr 2020

Archidply Industries Limited

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 122.66 Crore of Archidply Industries Limited (hereafter referred to as 'AIL' or 'the Company') and continues the ratings on Credit Watch with Developing Implications

Particulars:

Facility**	Amount (Rs Cr)		Tenure	Rating	
	Previous	Present		Previous (November 2019)	Present
Fund Based					
Cash Credit^	70.00	70.00	Long Term	BWR BBB Credit Watch with Developing Implications	BWR BBB Credit Watch with Developing Implications Reaffirmed
Term Loans	9.71	8.66			
Bill Discounting	2.00	2.00	Short Term	BWR A3+ Credit Watch with Developing Implications	BWR A3+ Credit Watch with Developing Implications Reaffirmed
Non-fund Based					
Letter of Credit^	36.00	36.00			
Bank Guarantee	6.00	6.00			
Total	123.71	122.66	Rupees One Hundred and Twenty Two Crores and Sixty Six 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. One way interchangeability in respect of SBI CC limit to LC/BG/BC sub-limits up to Rs. 10.00 Crs.

Rating Action/Outlook

The ongoing lockdown due to Covid-19 is likely to have some adverse impact on the revenue streams of Archidply Industries Limited during FY21. The Company, in accordance with the government guidelines, has shut its manufacturing facilities during the lockdown to ensure the safety of workers and other personnel and to prevent the spread of the pandemic. Brickwork Ratings (BWR) takes cognizance of the Covid-19 regulatory package and related guidelines issued by the Reserve Bank of India (RBI) vide its circular dated 27 March 2020 to mitigate the burden of debt servicing due to disruptions on account of the Covid-19 pandemic and ensure the continuity of viable businesses. BWR also takes note of the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated 30 March 2020 in this regard. BWR notes that



Archidply Industries Limited has applied for relief under the aforementioned package and its scheduled payments to the lending institutions have been deferred in the interim. The Company is yet to submit the approvals from its lenders because of procedural reasons. BWR would not be considering such non-payments as default for the time being. In case the lenders do not approve of the moratorium or do not provide a formal approval on rescheduling the loans in due course, BWR would review the approach towards default recognition. BWR is engaging in discussions with the management for the requisite information and will review the ratings post the availability of necessary details. BWR will continue to monitor the developments in the case of a prolonged lockdown and analyse the impact, if any, on the Company's credit profile.

The ratings reaffirmation continues to reflect the operational track record of the Company, demonstrated operating capabilities and established distribution network, experienced management, steady revenue growth over years and moderate financial risk profile marked by low gearing and 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 current liquidity strain due Covid-19 related shutdown.

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 has received the approval of the Honourable NCLT, Allahabad Bench on 08Jan2020 and the certified copy of this order was delivered to the Registrar of Companies (RoC) for registration on 01Feb2020. The allocation of shares of ADL to the eligible shareholders of AIL took place on 20Feb2020. The revised audited financial results of AIL for FY19 are awaited along with the audited financial results of FY20. The ratings are continued on Credit Watch with Developing Implications pending finalisation of the financial results of AIL and taking into account the uncertainties related to the impact of Covid-19 related lockdown on the Company's business in FY21 and possible delay in recovery process. BWR is in discussions with the management to ascertain the impact of the Scheme and the recent developments on the Company's business risk and credit risk profile and will review the ratings 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 plywood 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. 237.77 Crs. for 9MFY20 (unaudited) against Rs. 243.51 Crs. for 9MFY19 (unaudited).
- **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. 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 the same period also



contributed to stretching of the 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 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:** Due to Covid-19 related lockdown, the Company's operations have been halted since 24Mar2020. Finished goods ready for dispatch are held up in the factory premises. As the business activities of the Company's distributors/dealers are also stopped, the Company's collections from them have considerably dwindled since the lockdown started. The expected revenue loss for the Company due to lockdown is ~Rs. 40.00 Crs. The Company expects that even after the resumption of the business, it will take 3 to 6 months for the business environment to normalize. It expects to operate at 50% capacity post-lockdown and turnaround by the end of Sep'20. The Company has low Cash & Cash Equivalents of Rs. 0.60 Cr. as on 31Mar2020 against per quarter interest and term loan repayment obligations of Rs. 1.35 Crs. and Rs. 0.50 Cr. respectively for Q1FY21 and Q2FY21. It also has fixed operating cost payment obligations. Therefore, anticipating tight liquidity in near future, the Company has opted for RBI Moratorium Package. It has also applied for Emergency Covid Loans with its lenders. BWR believes that with its operational track record, manufacturing capacity and established distributors/dealers network, the Company may be able to regain its business and financial profile by Q3FY21 if there is no prolonged lockdown. However, short term supply chain issues may remain in place post-lockdown.

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:

Normalization of business operations post-lockdown leading to 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 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
- Any legal or operational issues arising out of demerger which may have negative implications.

Demerger Updates: The Company is in the process of demerging 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 had proposed to separate each business undertaking based on the commercial objectives and relevant geographies of the undertaking into separate companies. The Appointed Date of proposed Scheme of Arrangement (demerger) is 01Apr2018. ADL is currently an unlisted company. The Scheme has got the approval of the Honourable NCLT, Allahabad Bench on 08Jan2020. The Company delivered the certified copy of this order to the Registrar of Companies (RoC) for registration on 01Feb2020. The allocation of shares of ADL to the eligible shareholders of AIL took place on 20Feb2020. The revised audited financial results of AIL for FY19 are awaited along with the audited financial results of FY20. 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: Stretched

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. Its average monthly fixed operating expenses inclusive of the fixed finance costs are ~Rs. 2.50 Crs. Against that, the Company has practically nil revenue in April 2020 and the Cash & Cash Equivalents as on 31Mar2020 were low at ~Rs. 0.60 Cr as the Company liquidated FDRs worth Rs. 2.61 Crs. with Bank of Baroda on 30Mar2020 and kept the funds in the Cash Credit account to meet emergency requirements. The Company's total collections since the inception of the lockdown have dwindled and it expects revenue loss of ~Rs. 40.00 Crs. due to lockdown. As the Company anticipated liquidity crunch due to dwindled receivables recovery and nil fresh sales, it applied for relief under RBI Moratorium Package and Emergency Covid Loans with both SBI and Bank of Baroda. The banks have sanctioned the Package and documentation is underway. Under such conditions, the Company's current liquidity position is stretched.



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.

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	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. 237.77 Crs. of operating income for 9MFY20 (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 (April 2020)			Rating History		
	Tenure	Amount (Rs Cr)	Rating	05Nov2019	26Jul2018	16Jun2017
Fund Based						
Cash Credit*	Long Term	70.00	BWR BBB Credit Watch with Developing Implications	BWR BBB Credit Watch with Developing Implications	BWR BBB/Stable	BWR BBB/Stable
Term Loans		8.66				
Bill Discounting	Short Term	2.00	BWR A3+ Credit Watch with Developing Implications	BWR A3+ Credit Watch with Developing Implications	BWR A3+	BWR A3+
Non-fund Based						
Letter of Credit		36.00				
Bank Guarantee		6.00				
Total		122.66	Rupees One Hundred and Twenty Two Crores and Sixty Six 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.

*Two way interchangeability between 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

Hyperlink/Reference to applicable Criteria

• General Criteria	• Manufacturing Companies
• Approach to Financial Ratios	• 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 II (Rudrapur)	8.07	-	8.07
3	Bank of Baroda, CFS Branch, Bengaluru	Cash Credit*	30.00	-	30.00
4		Term Loan III (Chintamani)	0.34	-	0.34
5		Term Loan IV (Kolkata)	0.25	-	0.25
6		Letter of Credit*	-	36.00	36.00
7		Bank Guarantee	-	6.00	6.00
8		Bill Discounting (LC)	-	2.00	2.00
TOTAL - Rupees One Hundred and Twenty Two Crores and Sixty Six Lakhs Only					122.66

*There is two way interchangeability between 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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