May 12, 2023

Hunsur Plywood Works Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	6.00	6.00	[ICRA]BB (Stable); reaffirmed
Short-term – Non-fund based	7.50	7.50	[ICRA]A4+; reaffirmed
Total	**13.50**	**13.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers Hunsur Plywood Works Pvt Ltd's (HPWPL) stable revenues and profitability indicators in FY2023 and expectation of sustenance of this performance in the near to medium term, driven by healthy demand from the local real estate sector. The company witnessed a 4% YoY growth in revenues in FY2023 to ~Rs. 57 crore (provisional data) with healthy operating profitability margins (>10%). The margins benefitted from moderation in timber prices and continued domestic procurement of raw materials, which is more economical (given the reduced freight and forex risk) than imports. The ratings continue to draw comfort from the extensive experience of the promoters and its established presence in the Karnataka timber industry. The ratings positively reflect HPWPL's established relationship with key customers and its diversified clientele, which lends stability to its revenues.

The ratings are, however, constrained by HPWPL's modest scale and net worth position, along with its moderate working capital intensity of operations. The company's capital position is, nevertheless, supported by interest-bearing unsecured loans from promoters. The ratings consider the intense competition in the industry due to low product differentiation and entry barriers. The fragmented industry structure limit the industry participant's bargaining power and pricing flexibility, and exert pressure on its revenues and margins. HPWPL's profit margins remain exposed to fluctuations in foreign currency, given its 25-30% dependence on imported raw material.

Going forward, HPWPL's ability to sustainably improve its scale up operations and net worth, while effectively managing the working capital requirements and foreign exchange fluctuations will be the key rating sensitivity.

The Stable outlook on the long-term rating reflects ICRA's opinion that HPWPL will continue to benefit from the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in timber business - Mr. Moiz S. Vagh and his family members, the promoters of HPWPL, have over five decades of experience in the timber and plywood industry. The promoters have a controlling stake in Group entities such as Pyramid Timber Associated Private Limited, The Decorative Laminates India Private Limited and Ferro Foundries Private Limited, which are involved in a similar line of business. The company derives most of its revenues (~94% in FY2022) from the sale of plywood and decorative plywood.

Revenue growth supported by an established customer base and diversified clientele - HPWPL's operating income (OI) has gradually scaled up over the past few years. By virtue of the company's long presence in the timber business and strong regional presence through a distribution network, the promoters have established strong association with dealers and timber marts in Bengaluru, Hyderabad, Mysore, and other parts of South India, which supports business volumes. With steady growth expectations and no plans of any debt-funded capex over the medium term, HPWPL's financial profile is expected to remain comfortable.

Credit challenges

Modest scale of operations, limiting operational and financial flexibility - Despite the healthy recovery seen post pandemic, HPWPL's scale of operations has remained modest, with an OI of ~Rs. 57 crore in FY2023 (vis-à-vis Rs. 39 crore in FY2014). The lower scale of operation limits its operational and financial flexibility compared to larger competitors.

Moderate net worth and working capital intensity - Despite healthy accruals in FY2022, the company has a modest net worth (Rs. 11.0 crore as on March 31, 2022). Its working capital intensity remains moderate, as reflected in NWC/OI of ~28% as on March 31, 2022, primarily due to high inventory holding requirements.

Stiff competition in industry limits bargaining power; profitability exposed to forex risk - Intense competition and the fragmented industry structure limits the company's overall bargaining power as well as the pricing flexibility. Demand for plywood is directly related to the growth of real estate sector, and hence HPWPL is exposed to sectoral concentration risk to some extent. However, the established relationship with its major customers offers comfort to some extent. The company still imports a part of its raw materials from Singapore, Burma, Malaysia, Italy, North Africa, and US, which exposes margins to foreign exchange rates fluctuations in absence of any formal hedging mechanism.

Liquidity position: Adequate

The liquidity position remains adequate, supported by sufficient buffer in its working capital limits (with an average utilisation of 50% on the fund-based sanctioned limits of Rs. 6 crore during April 2022 to March 2023). The company has marginal debt repayment obligations of ~Rs. 0.22 crore in FY2024 and ~Rs. 0.53 crore in FY2025 and no plans for any major debt-funded capex. The liquidity is supported by interest-bearing unsecured loans from promoters, aggregating Rs. 7.1 crore as on March 31, 2023. Efficient management of working capital requirements would remain crucial, going forward.

Rating sensitivities

Positive factors - ICRA could upgrade HPWPL's ratings if there is a significant improvement in its scale and operating margins, coupled with meaningful strengthening of net worth. Further, efficient management of working capital requirements and lower dependence on borrowings would be a credit positive.

Negative factors - Negative pressure on HPWPL's ratings could arise if there is a large and sustained decline in turnover and profitability or if there is an elongation in its working capital cycle, which adversely impacts its liquidity profile. Specific credit metrics that could lead to a downgrade of HPWPL's ratings would be weakening of interest coverage below 2 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Established in 1962, HPWPL is promoted by Mr. Moiz S. Vagh and family. It manufactures hardwood and decorative plywood, block boards, flush doors, and decorative veneers. The company's sole manufacturing facility is at Hunsur, in the Mysore district of Karnataka and is spread over 26 acres of land, with an installed capacity to manufacture 1.0 million square feet of plywood per annum. Its products are marketed under the brand, Hunsply.

Key financial indicators (audited)

HPWPL Standalone	FY2021	FY2022	FY2023*
Operating income	37.4	54.4	56.5
PAT	1.0	3.1	7.0
OPBDIT/OI	8.0%	11.7%	14.3%
PAT/OI	2.6%	5.8%	-
Total outside liabilities/Tangible net worth (times)	2.4	1.9	-
Total debt/OPBDIT (times)	4.1	1.7	-
Interest coverage (times)	2.0	5.5	-

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 12, 2023	May 20, 2022	May 17, 2021	-
1	**Fund-based/CC**	Long term	6.00	1.90	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB- (Stable)**	-
2	**Non-fund based**	Short term	7.50	6.51	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4**	-

**As per latest sanction letter*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based/CC	Simple
Short-term Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term – Fund-based/ CC**	NA	NA	NA	6.00	[ICRA]BB (Stable)
NA	**Short-term – Non-fund Based**	NA	NA	NA	7.50	[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable.

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About ICRA Limited:

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