July 30, 2021

Austin Plywood Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit	12.50	12.50	[ICRA]BBB (Stable); Reaffirmed
Fund based – Term Loan	1.25	1.25	[ICRA]BBB (Stable); Reaffirmed
Non-fund based - Bank Guarantee	1.00	1.00	[ICRA]A3+; Reaffirmed
Unallocated Limits	20.25	20.25	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Total	**35.00**	**35.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the Austin Plywood Pvt. Ltd.'s (APPL's/ the company's) favourable financial profile, characterised by a comfortable capital structure (gearing of 0.1 times as on March 31, 2021) and healthy coverage indicators (OPBDITA/Interest and finance charges of 12.8 times and Total Debt/OPBDITA of 0.5 times) owing to low external borrowings. The ratings also take into consideration the extensive experience of the promoters and the established track record of APPL in the business of plywood and allied products and APPL's wide network of dealers, which has enabled the company to strengthen its operating profile, particularly in eastern and southern India.

The ratings, however, are constrained by the moderate scale of current operations, despite an improvement by 28% to Rs. 169.0 crore in FY2021, which limits operational and financial flexibility to some extent. The ratings also factor in the intense competition inherent in the industry due to the presence of numerous organised and unorganised players, which limits pricing flexibility and keeps the company's profitability under check. Besides, the overall profitability would also remain vulnerable to fluctuations in raw material prices and volatility in foreign exchange rates in the absence of any hedging mechanism.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that APPL will continue to benefit from the long experience of the promoters and the established track record of its operation in the plywood manufacturing business.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record of operations - The company was incorporated by the Kolkata-based Agarwal family in 1982 and is a part of the Austin Group. The Group has experience of more than three decades in the business of plywood and allied products through APPL and other group companies. The Group's long experience in the industry has enabled it to establish good relationship with customers and suppliers.

Wide distribution network– The wide network of over 200 dealers spread across the country, coupled with the growing acceptance of the Austin brand has helped the company to strengthen its operating profile and its presence, particularly in the eastern and southern India.

Favourable financial profile characterised by comfortable capital structure and healthy coverage indicators – APPL's cash accruals steadily improved during FY2017 to FY2021, supported by an increase in the operating income (8% in FY2020 and 28% in FY2021). The capital structure remained comfortable, with gearing at a low level of 0.1 times as on March 31, 2021 (provisional) against 0.2 times as on March 31, 2020. APPL's debt coverage metrics are healthy as reflected by Total Debt/OPBDITA of 0.5 times and Interest Coverage of 12.8 times as on March 31, 2021. In FY2022 also, debt coverage metrics are expected to remain strong, supported by comfortable capital structure mainly due to low external borrowings.

Credit challenges

Moderate scale of current operations - Notwithstanding the increase in the operating income by 28% to Rs. 169.0 crore in FY2021 (provisional) from Rs. 131.8 crore in FY2020, primarily because of an increase in plywood sales, the company's scale of operations currently stands at a moderate level, which limits operational and financial flexibility to some extent.

Intense competition due to the presence of numerous organised and unorganised players - The plywood business is characterised by intense competition from across the value chain due to low product differentiation, and consequent high fragmentation and low entry barriers, which limit the pricing flexibility of the participants, including APPL. The company faces stiff competition from a few organized players viz., Centuryply and Greenply, which dominate the plywood segment. Moreover, its business is also susceptible to cheap import of furniture from countries such as China, Vietnam and Mozambique.

Profitability remains susceptible to volatility in raw material prices and foreign exchange rate fluctuation - Manufacturing of plywood is raw material intensive, hence, the profit margins remain susceptible to adverse fluctuations in the costs of various raw materials, particularly veneer. The operating profit margins in FY2020 dented to 5.85% in FY2020 from 8.55% in FY2019, following lower value addition in the manufacturing process with direct procurement of veneers (which was processed in-house earlier), an increase in trading sales from 3% in FY2019 to 11% in FY2020, and an increase in employee expenses. Nonetheless, with a reduction in raw material prices due to oversupply, the operating profit margin has marginally improved to 6.38% in FY2021. Around 13% of the total raw materials consumed by the company was imported in FY2021, and the absence of a formal hedging policy exposes its profitability to adverse movement in foreign exchange rates. However, immediate payment for imports mitigates the risk to some extent. The company's ability to pass on the increased cost to the customers will remain a key determinant of its profitability, going forward.

Liquidity position: Adequate

ICRA expects the company's liquidity position to remain adequate, with limited long-term debt service obligations, moderate utilisation of working capital limits (average utilisation of ~55% during the period July 2020 to June 2021) and absence of major debt-funded capex plans. In addition to the regular maintenance capex, the company has plans to set up a wood composite board manufacturing unit in FY2023 at an estimated cost of ~Rs. 5.50 crore, which will be funded through a mix of internal accruals and bank borrowings.

Rating sensitivities

Positive factors: ICRA may upgrade APPL's ratings if the company demonstrates sustained improvement in revenues and earnings while maintaining healthy debt coverage metrics.

Negative factors: Pressure on APPL's ratings may arise if any major debt-funded capital expenditure adversely impacts the debt coverage metrics. Moreover, an increase in the working capital intensity that weakens the liquidity position or a decline in the revenues and earnings or any adverse Government regulations pertaining to the sourcing of raw materials may also exert pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]
Parent/Group Support	Not Applicable
Consolidation/Standalone	Ratings are based on the standalone financial statements of the company

About the company

APPL was incorporated in 1982 by the Kolkata-based Agarwal family under the name of B. S. Progressive Pvt. Ltd. In January 2020, the name of the company was changed to Austin Plywood Pvt. Ltd. The company manufactures plywood, block board and flush door. Besides, it trades in plywood, veneer, PVC foam board etc. The manufacturing facility of the company is in Kolkata, West Bengal. The installed capacity of the plywood manufacturing facility is 75,00,000 notional area (NA), equivalent to 30,000 cubic metres (CBM) per annum.

Key financial indicators

APPL Standalone	FY2020 (Audited)	FY2021 (Provisional)
Operating Income (Rs. crore)	131.8	169.0
PAT (Rs. crore)	4.4	7.4
OPBDIT/OI (%)	5.9%	6.4%
PAT/OI (%)	3.3%	4.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.5	0.5
Interest Coverage (times)	10.1	12.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	CRISIL BB+/Stable/ CRISIL A4+ Issuer Not Cooperating	April 28, 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 30, 2021	Aug 25, 2020	-	-
1	Cash Credit	Long-term	12.50	4.76	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-
2	Common Covid-19 Emergency Credit Line	Long-term	1.25	1.10	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	-	-
3	Bank Guarantee	Short-term	1.00	-	**[ICRA]A3+**	**[ICRA]A3+**	-	-
4	Unallocated Limits	Long-term and short term	20.25	-	**[ICRA]BBB (Stable)/ [ICRA]A3+**	**[ICRA]BBB (Stable)/ [ICRA]A3+ -**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Common Covid-19 Emergency Credit Line	Simple
Bank Guarantee	Very Simple
Unallocated Limits	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	12.50	[ICRA]BBB (Stable)
NA	Common Covid-19 Emergency Credit Line	FY2021	7.55% p.a.	FY2023	1.25	[ICRA]BBB (Stable)
NA	Bank Guarantee	-	-	-	1.00	[ICRA]A3+
NA	Unallocated Limits	-	-	-	20.25	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: *Austin Plywood Pvt. Ltd.*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Nijara Kalita
+91 22 6114 3455
nijara.kalita@icraindia.com

Aditi Shikhar
+91 22 6169 3363
diti.shikhar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.