

January 20, 2017

## Agarwalla Timber Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Non-Fund Based Limits	77.25	Reaffirmed at [ICRA]A4
Fund Based Limits	6.00	Reaffirmed at [ICRA]BB (Stable)
<b>Total</b>	<b>83.25</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the long term rating at [ICRA]BB (pronounced as ICRA double B)<sup>1</sup> for the Rs. 6.00 crore cash credit facility of Agarwalla Timbers Pvt. Ltd. (ATPL). ICRA has also reaffirmed the short term rating at [ICRA]A4 (pronounced as ICRA A four) for the Rs. 77.25 crore<sup>2</sup> non fund based bank facilities of ATPL.

### Rationale

The ratings reaffirmation takes into account the subdued growth in ATPL's Operating Income (OI) in the past few years; there has also been constant erosion in the company's operating profit margins. There has been an increase in the company's working capital intensity in the last two years which has resulted in an increase in the company's debt levels and has led to weakening of the company's leverage and coverage indicators as compared to the previous year levels. ICRA's ratings continue to positively factor in the extensive experience of ATPL's promoters in the timber trading business and stable demand outlook for timber in the medium term. The ratings also favourably consider the comfortable liquidity position, with no major long term debt. Nevertheless, the ratings are constrained by ATPL's modest scale of operations, the highly competitive nature of the timber trading industry characterized by the presence of numerous unorganized players, coupled with the low value additive nature of the business, which has resulted in decreasing profitability margins over the years. The ratings also factor in the vulnerability of the company's profitability to adverse foreign exchange rate movements given that most of the company's requirement of timber is met through imports and also the risks arising out of volatility in timber prices on account of the company's 'stock and sale' business model, wherein the timber purchases are not backed by confirmed orders. ICRA also takes note of the company's weak coverage indicators with NCA<sup>3</sup>/Debt of 4% and OPBDITA<sup>4</sup>/Interest of 1.76 times in FY2016. Further, the demand for the timber and allied trade industry is mainly associated with the housing/construction industry therefore rendering the company vulnerable to any slowdown in these sectors.

Going forward, the company's ability to register healthy growth in revenue, improve its profitability margins and optimally manage the exchange rate risk will remain the key rating sensitivities.

### Key rating drivers

#### Credit Strengths

- The promoters have been present in the business for over three decades hence; possess adequate experience regarding the dynamics of the business
- The operating income of the company has grown significantly over the past years
- No major long term repayments as total term loans & car loans of Rs. 0.33 crore will be completely repaid within this financial year

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

<sup>3</sup> NCA: Net Cash Accruals

<sup>4</sup> OPBDITA: Operating Profit before Depreciation, Interest and Tax

**Credit Weakness**

- Highly competitive nature of the industry coupled with low value-add work performed by the company, refrain it from charging premium for its products thereby resulting in meager profitability in the range of 2-3% at the operating level
- The entire timber requirement is met through imports (in USD) and the import payables are not completely hedged by the company exposing the company to exchange rate fluctuations
- High levels of Total outside liabilities/TNW (3.32 times in FY2016) due to high debtor days resulting in either high creditor levels (LC backed) or high working capital borrowings (Cash credit + Buyer's credit + Supplier's credit)
- Moderate debt protection indicators of the company with NCA/Debt of 4% and OPBDITA/Interest of 1.76 times in FY2016
- Elevation in gearing from 1.96 times as on March 31, 2015 to 2.20 times as on March 31, 2016
- The timber and allied trade industry is mainly associated with the housing/construction industry therefore subjecting the company vulnerable to any slowdown in that sector

**Description of key rating drivers highlighted above:**

The company procures timber logs which are imported from various suppliers across Malaysia, Africa, New Zealand and Europe at Kandla Port in Gandhidham. At the factory the logs are cleaned and sawed to make clean squared timber blocks as well as different shapes of molding and beading as per customers' requirements and specifications which show the low value additive nature of the business. There are a lot of unorganized players are present in the timber industry due to low entry barriers of the business which results in intense competition amongst them and affects profitability. The profitability of the company remains subdued due to the same with operating profitability at 2% in FY2016. India's ban on most domestic logging plus the rising prosperity of the middle-class Indians continue to fuel demand for timber and wood-based products which along with strong past track record of the promoters has led to healthy growth in the operating income in the past few years. The entire raw material procurement is met by imports and it is not usually order-backed, which exposes it to forex and price fluctuations on the existing inventory as the LC's and buyer's credit limits are open till the payments are made. UOSPL generates. The company does not follow any fixed hedging policy to mitigate the currency risk.

The liquidity position in the short term has remained comfortable. However, the working capital intensity of ATPL increased to 27% in FY2016 from 23% in FY2015 on account of decrease in the inventory days and high debtor days. The short term debt funding of the working capital requirements and comparatively small net worth has resulted in leveraged capital structure as well as moderation in the coverage indicators. The company has been funding the creditors either through LCs or buyers credit (usance period of 220 days), thereby resulting in high level of total outside liabilities/Total network (3.32 times in FY2016). High TOL/TNW is typical of the timber trading industry as most of the timber purchases are backed by LC's leading to high creditor days.

**Analytical approach:****Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Rating Methodology For Trading Companies

<http://www.icra.in/Files/Articles/Rating%20Methodology-Trading%20Companies.pdf>

**About the Company:**

ATPL is engaged in the business of trading of timber and was incorporated in 1999. It has been promoted by Mr. Bhimsain Goyal and Mr. Subhash Chander Goyal. The company's factory is located in Gandhidham, Gujarat and operates a total of 26 saw mills. The company imports hardwood and softwood logs from various countries like Malaysia, Ghana and New Zealand. The sawn timber is distributed from the company's offices in Nangloi in Delhi, Ludhiana in Punjab, Bahadurgarh in Haryana and Gandhidham in Gujarat. The timber sold by the company finds application in furniture and construction work.

ATPL reported a net profit of Rs. 1.02 crore on an operating income of Rs. 155.97 crore for the year ended FY2016 as compared to a net profit of Rs. 1.25 crore on an operating income of Rs. 155.95 crore for the previous year.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	March 2016	December 2014	December 2013
1	Cash Credit	Long Term	6.00				
				[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Letter of Credit/ Buyer's Credit	Short Term	77.25				
				[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4

**Table: Rating History**

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1

### Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	6.00	[ICRA]BB (Stable)
Letter of Credit/ Buyer's Credit	-	-	-	77.25	[ICRA]A4

Source: Company's (ATPL) info

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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](http://www.icra.in)

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