

## Padmavati Decor Private Limited

December 28, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action <sup>1</sup>
Fund-based - Cash Credit	10.00	10.00	[ICRA]BB(Stable); Reaffirmed
Non-fund Based – Letter of Credit	7.50	12.50	[ICRA]A4; Reaffirmed
Unallocated Limits	-	0.63	[ICRA]BB(Stable)/[ICRA]A4; Reaffirmed

\*Instrument details are provided in Annexure 1.

### Rationale

The ratings reaffirmation of Padmavati Decor Private Limited (PDPL)<sup>2</sup> continues to consider the extensive experience of the promoters in the plywood and veneer industry and the strengths from being a part of the Timex Group in terms of access to a wide distributor network and marketing arrangements. The ratings also factor in the company's diversified product profile, comprising a wide collection of certified quality veneers and plywood and the moderate recognition of the in-house brand, Timex, in the domestic market.

The ratings, however, are constrained by the company's increased working capital intensive nature of operations emanating from high inventory holding, which has entailed a near-to-full utilisation of the working capital limits. ICRA notes that despite the increase in scale of operations, PDPL's operating income (OI) remains moderate at Rs. 49.8 crore in FY2018, which however improved from Rs. 38.4 crore in FY2017. The ratings are further constrained by the significant weakening of the company's operating profitability, due to high overhead expenses (emanating from the increasing directors' remuneration and key managerial remuneration expenses). Further, the ratings also remain constrained by the company's leveraged capital structure as indicated by a high gearing of 3.8 times as on March 31, 2018. Nevertheless, the presence of sizeable interest-free unsecured loans from related parties, which are primarily subordinated to the bank loans, provide comfort. ICRA also notes that the plywood manufacturing industry is highly competitive and fragmented with numerous players in both organised and the unorganised segments. Moreover, the exposure of the company's operations to the cyclicity inherent in the real estate industry, the key consumer industry, is yet another concern.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that PDPL will continue to benefit from the support of the Timex Group and the experience of its promoters in terms of sourcing and supplying materials to its existing customer base. The outlook may be revised to Positive in case of any substantial growth in revenue, along with an improvement in profitability and better working capital management, which will strengthen the financial risk profile. Conversely, the outlook may be revised to a Negative in case of any decline from the current level of profitability increasing the external borrowings, which might weaken the capital structure or a further stretch in the working capital cycle, which might impact the liquidity position.

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

<sup>2</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

## Key rating drivers

### Credit strengths

**Extensive experience of promoters; operational comfort derived from Group companies in related businesses** - PDPL is a part of the Timex Group. The promoters have extensive experience in the business of plywood, doors, veneers, ceramics and laminates among others, through the various Group entities. This results in operational synergies between the related Group businesses.

**Wide product profile with moderate brand recognition** - PDPL manufactures veneers and decorative plywood (in ranges like natural, smoke, big, dyed, etc), which are sold under the Timex Veneers and Timex Plywood brands, respectively. The Timex brand enjoys moderate recognition in the Indian market, which assists in market recognition and standing. PDPL enjoys a pan India presence through the Group's distributor network.

### Credit challenges

**Leveraged capital structure with increased working capital intensity of operations** - PDPL has a practice of increased inventory holding, as the primary raw material, timber, is procured in bulk from different geographies during the timber harvest season. This has resulted in a near-to-full utilisation of the working capital limits. Moreover, the company had increased reliance on unsecured loans (interest free) due to a limitation on the cash credit limits availed from the bank. This resulted in a leveraged capital structure with gearing of 3.8 times as on March 31, 2018. Nevertheless, the constitution of unsecured loans to the extent of ~54% of the total debt provides comfort.

**Dent in operating profitability due to increased remuneration of directors and key management personnel** - PDPL's operating profitability declined over the last four years, mainly because of increase in the directors' remunerations and salaries of key managerial personnel. This further moderated the operating margin at 6.3% in FY2018, against 6.9% in FY2017.

**Intense competition and fragmentation in plywood industry** - The plywood industry is an intensely competitive and fragmented industry because of low entry barriers and moderate capital requirements. The industry is marked by large as well as several small players. The industry's intense competition limits the pricing flexibility and exerts pressure on the margins of all the participants.

**Vulnerable to inherent cyclicity in real estate sector** - As the demand for building materials depend directly on the real estate and construction industries, the company's operations are highly vulnerable to the cyclical trends in this end-user sector.

### Liquidity position

The liquidity position remains tight with high working capital limit utilisation of ~92% during the period from October 2017 to September 2018. Further, the company has limited buffer in terms of undrawn limits and low free cash position of Rs. 0.31 crore as on March 31, 2018.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 2005, Padmavati Decor Private Limited manufactures natural decorative veneers, decorative plywood and other related products. The business is managed by Mr. Suresh Shah and Mrs. Pushpa Shah. PDPL is a part of the Timex Group, which comprises seven other Group companies in the business of various building materials for over two-and-a-half decades. All of the Group's products are marketed under the brand, Timex. The company is based out of Mumbai, with its manufacturing facility at Vapi in Gujarat.

In FY2018, the company reported a net profit after tax of Rs. 1.0 crore on an OI of Rs. 49.8 crore, compared to a net profit after tax of Rs. 0.8 crore on an OI of Rs. 38.4 crore in the previous year.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	38.4	49.8
PAT (Rs. crore)	0.8	1.0
OPBDIT/ OI (%)	6.9%	6.3%
RoCE (%)	10.9%	10.0%
Total Debt/ TNW (times)	4.0	3.8
Total Debt/ OPBDIT (times)	7.9	7.7
Interest Coverage (times)	1.7	2.1
NWC/ OI (%)	53.6%	48.1%

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

		Current Rating (FY2019)		Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Dec 2018	Date & Rating in FY2018 Feb 2018	Date & Rating in FY2017		Date & Rating in FY2016 Jul 2015	
						Nov 2016	Sep 2016		
1	Cash Credit	Long term	10.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable); suspended	[ICRA]BB (Stable)
2	Letter of Credit	Short term	12.50	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4; suspended	[ICRA]A4
3	Unallocated	Long term/ Short term	0.63	-	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-

## 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: 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	-	-	-	10.00	[ICRA]BB(Stable)
NA	Letter of Credit	-	-	-	12.50	[ICRA]A4
NA	Unallocated Limit	-	-	-	0.63	[ICRA]BB(Stable)/[ICRA]A4

Source: PDPL

## ANALYST CONTACTS

**K. Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Srinivas Menon**  
+91 22 61693354  
[srinivas.menon@icraindia.com](mailto:srinivas.menon@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Vidhi Vasa**  
+91 22 6169 3352  
[vidhi.vasa@icraindia.com](mailto:vidhi.vasa@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

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

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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](http://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