

## Everest Ply & Veneers Private Limited

April 29, 2019

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	12.00	[ICRA]BB(Stable) assigned
Non-Fund based	7.00	[ICRA]A4+ assigned
<b>Total</b>	<b>19.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Everest Ply & Veneers Pvt Ltd (EPVPL) along with its group companies Tirupati Veneers Pvt Ltd (TVPL) and Solid Ply Pvt Ltd (SPPL) given the close business, financial and managerial linkages among them.

The assigned ratings draw comfort from significant experience of the promoters spanning over two decades in the plywood industry; backward integrated operations through joint ventures Fine Ply Myanmar Pvt Ltd (FPMPL, 40% interest by EPVPL) in Myanmar, Fine Ply Laos Pvt Ltd (FPLPL, 50% interest by TVPL) in Laos and Solid Wood Gabon Sualr (SWGS, 100% subsidiary of SPPL) in West Africa facilitating raw material procurement; and and comfort from proximity to Visakhapatnam port resulting in ease of access to imported timbers. The ratings also favourably factor in the improvement in operating margins from 4.09% in FY2015 to 6.01% in FY2018 and 6.75% in 9mFY2019 with increase in proportion of sales from timber-based products; moderate customer concentration risk with top three customers contributing to 36% of total sales in timber-based products segment during FY2018; and wide distribution network with more than 50 dealers across India.

The ratings, however, are constrained by weak financial profile of the group with adjusted interest coverage at 1.63 times, NCA/TD at 6%, DSCR at 1.04 times, TOL/TNW at 1.89 times for FY2018; large group investments of Rs. 47.53 crore (0.88 times of net worth as on March 31, 2018) where Rs. 19.28 crore is towards equity investment in foreign ventures, Rs. 17.32 crore to other entities and Rs.11.93 crore given to SWGS for setting up veneering facility; and high working capital intensive nature of business with NWC/OI at 34% owing to high debtor days. The ratings are exposed to regulatory changes in countries where foreign subsidiaries operate affecting the raw material availability and India operations as witnessed in the past; highly competitive and fragmented nature of plywood industry with presence of numerous players with the industry marked by presence of large established players like Archidply, Centuryply, Kitply, etc. which have well established brand presence; and vulnerability of profitability margins to raw material and foreign exchange price fluctuations.

### Outlook: Stable

The stable outlook reflects that the group will continue to benefit from extensive experience of promoters in the plywood industry and easy availability of raw material with the group setting up timber processing units in Myanmar, West Africa and Laos. The outlook may be revised to Positive if there is a substantial increase in the group's scale of operations, operating margins along with improvement in working capital cycle. The outlook may be revised to Negative if any major decline in sales turnover or stretch in the working capital cycle weakens liquidity.

## Key rating drivers

### Credit strengths

**Experienced management in the plywood industry:** The promoters have more than twenty years of experience in the timber and plywood industry. EPVPL is the first company in the Everest group founded in 1995 followed by two other plywood companies SPPL in 1997 and TVPL in 2003. Mr. Aman Garg is the managing director of the group and has rich experience of 20 years in the plywood industry. He has expertise in selecting the 'Gurjan Timber' which is best raw material for the manufacturing of veneers and plywood.

**Backward integration through foreign ventures ensures raw material availability:** Gurjan timber from Myanmar, Indonesia is the heaviest and hardest timber suitable for manufacturing face veneers. In 2014, Myanmar government banned the export of raw timber and restricted exports to only finished product like veneers, furniture etc. Following that, the group established, "Fine Ply Myanmar Pvt Ltd" in Myanmar during 2016, "Fine Ply Laos Pvt Ltd" in Laos during 2017 and "Solid Wood Gabon Suarl" in Gabon, West Africa in 2018 to ensure timely availability of raw material. These three foreign entities facilitate the procurement of face veneers required by the group for Plywood manufacturing. It generally takes 3 months for the face veneers to reach Vishakhapatnam port.

**Moderate customer concentration risk with wide distribution network:** The customer concentration is moderate with top three customers contributing to 36% of total sales in timber-based products segment during FY2018. The group has developed established relationships with major suppliers and customers. The group has dealer network across India with more than 50 dealers.

**Improved operating margins in the last 3 years:** The operating margins have improved from 4.09% in FY2015 to 6.01% in FY2018 and further to 6.75% in 11mFY2019 with increase in proportion of sales from timber-based products. The company has derived Rs. 100.19 crore in FY2015 (59.5% of total OI) and Rs. 111.5 crore in FY2016 (60.4% of total OI) which has increased to Rs. 102.64 crore (82.3% of total OI) to 11mFY2019. The net profit margins are weak at 1.52% owing to high interest expenses and ROCE stood at 9.68% during FY2018.

### Credit challenges

**Weak financial risk profile:** The group's financial profile is weak with adjusted interest coverage at 1.63 times, NCA/TD at 6%, TOL/TNW at 1.89 times and TD/OPBIDTA at 5.60 times for FY2018. The DSCR is at 1.04 times on account of low cash accruals. Further, the DSCR is expected to improve despite repayments for SWGS facility commencing from FY2019 on the back of improved profitability margins. The group also has Rs. 9.01 crore unsecured loans taken from other entities for which it pays an interest of 9%.

**High working capital intensity:** The working capital intensity is high at 34% in FY2018 on account of high debtor days. The company generally offers 1-2 months credit period for its customers in steel trading and 2 to 3 months in wood products division. With increase in proportion of sales from timber-based products, the debtor days have increased from 101 days in FY2015 to 186 days in FY2018. It generally takes 3 months for the face veneers to reach Vishakhapatnam port. The company uses 210 days LC for the imports. The creditor days have also increased from 67 days in FY2016 to 115 days in FY2018.

**Large group investments in foreign ventures and other related entities:** The consolidated net worth is moderate at Rs 54.20 crore as on March 31, 2018. Further, the group has investments of Rs. 47.53 crore (0.88 times of net worth as on March 31, 2018) where Rs. 19.28 crore is towards equity investment in foreign ventures, Rs. 17.32 crore to other entities

and Rs.11.93 crore given to SWGS for setting up veneering facility. For the loans and advances given, the company earns an interest of 9%.

**Regulatory changes in countries where foreign subsidiaries operate affects the raw material availability:** The group operates plants at Myanmar under Fine Ply Myanmar Pvt Ltd, in Laos under Fine Ply Laos Pvt Ltd and in Gabon under Solid Wood Gabon Suarl. In January 2019, Laos government has banned the export of semi-finished products like veneers and timbers while allowing only finished product exports like furniture. The group is planning to sell the Laos facility currently. Further, entire sales are done in domestic market while the raw materials are majorly imported exposing the margins to any adverse foreign exchange fluctuations.

**Highly competitive and fragmented nature of plywood industry:** The plywood industry is highly competitive with presence of numerous players; the industry is also marked by the presence of large established players like Archidply, Centuryply, Kitply, etc. which have well established brand presence.

### Liquidity Position:

The liquidity position is weak with average fund based utilisation for the last 12 months ended January 2019 at 96.66% of sanctioned limits.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	No
Consolidation / Standalone	For arriving at the rating, ICRA has taken a consolidated view of EPVPL along with its group companies – Solid Ply Pvt Ltd and Tirupati Veneers Pvt Ltd, given the close business, financial and managerial linkages among them.

### About the company:

EPVPL is the first company in Everest group founded in 1995 followed by two other plywood companies Solid Ply Private Limited and Tirupati Veneers Private Limited. All the three companies were set up together to avail the SSI and sales tax benefits being offered by the erstwhile Andhra Pradesh government. EPVPL's manufacturing facility is located near Visakhapatnam. EPVPL is also engaged in trading of timber and steel bars. The group also established Choice Boards Pvt Ltd (CBPL) in 1997 and Ply Com Pvt Ltd (PCPL) in 1999 which is also held by family members of the principal promoter.

Everest group has an advantage of procuring "Gurjan timber" in bulk from countries like Myanmar, Malaysia, and Indonesia. The group established, "Solid Wood Gabon Suarl" the face veneer manufacturing unit at Gabon, West Africa. In addition, the group has experience in procuring timber from Nepal, Bihar, Laos, Myanmar, Imphal & Nagaland.

### Key financial indicator

	FY2017	FY2018
Operating Income (Rs. crore)	162.56	151.39
PAT (Rs. crore)	1.74	2.30
OPBDIT/ OI (%)	4.91%	6.01%
RoCE (%)	14.71%	9.68%
Total Debt/ TNW (times)	1.00	0.94
Total Debt/ OPBDIT (times)	6.51	5.60
Interest coverage (times)	1.59	1.36

### Status of non-cooperation with previous CRA:

EPVPL is not cooperating with CRISIL and has rating of CRISIL BB-(Stable)/A4+; Issuer not cooperating vide its press release dated March 27, 2019.

### Any other information:

Not Applicable

### Rating history for last three years:

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date and Rating Apr 2019	Date and Rating in FY2019	Date and Rating in FY2018	Date and Rating in FY2017
1	Cash credit	12.00	-	[ICRA]BB (Stable)	-	-	-
2	Non-Fund based	7.00	-	[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
-	Cash credit	29/08/2017	-	-	12.00	[ICRA]BB(Stable)
-	Letter of credit	29/08/2017	-	-	7.00	[ICRA]A4+

Source: EPVPL

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Solid Ply Pvt Ltd	0.00%	Full Consolidation
Tirupati Veneers Pvt Ltd	0.00%	Full Consolidation

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