

Variety Lumbers Private Limited

January 11, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Cash Credit	2.00	2.00	[ICRA]D; Downgraded from [ICRA]B+(Stable) and removed from Issuer Not Cooperating category
Non-fund-based Import Letter of Credit cum Buyers Credit	20.00 [^]	20.00	[ICRA]D; Downgraded from [ICRA]A4 and removed from Issuer Not Cooperating category
Total	22.00	22.00	

*Instrument details are attached in Annexure-1

[^]Includes sublimit: BELC (Rs. 4.00 crore) and BG (Rs. 1.00 crore)

Rationale

The rating downgrade takes into account instances of LC devolvement, which has remained overdue, for more than 30 days, in the last three months due to delay in receipt of payments from key customers. Further, the working capital limit was fully utilised, with instances of overutilisation. The ratings reflect the company's weak financial risk profile, marked by leveraged capital structure, weak coverage indicators and high working capital intensity. Further, the ratings are constrained by the stiff competition in the timber industry and the vulnerability of VLPL's profitability to the volatility in timber prices and to foreign exchange fluctuation due to substantial imports.

The ratings, however, continue to favourably factor in the extensive experience of VLPL's promoters in the timber industry and the ease of procurement because of the proximity of the entity's facilities to the Kandla port in Gujarat.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Extensive experience of promoters in timber industry– Incorporated in 2002, Variety Lumbers Private Limited (VLPL) operations are managed by the members of the Dubey family, who have more than two decades of experience in timber business.

Location-specific advantage– VLPL facility is located at Gandhidham in Gujarat, which has been declared a timber zone by the Government. Further, a major part of its procurement is through imports. Thus, proximity to the Kandla port in Gujarat provides logistics advantage to the company.

Credit challenges

Delays in debt servicing –Instances of LC devolvement has been observed for more than 30 days in the past three months following delay in receipt of payment from key customers. Further, the cash credit limit has also been fully utilised with instances of over utilisation.

Weak financial risk profile characterised by leveraged capital structure and weak coverage indicators– Low value addition in timber sawing and trading business results in low operating margin (4.7% in FY2018) and net margin (0.9% in FY2018). The capital structure of the company continues to remain leveraged, with gearing of 2.3 times as on FY2018-end and 2.7 times as on FY2017-end. The debt coverage indicators have also remained weak, with interest coverage of 1.4 times, TD/OPBIDTA of 4.3 times, DSCR of 1.3 times and NCA/TD of 6% as on FY2018-end as against interest coverage of 1.3 times, TD/OPBIDTA of 8.6 times, DSCR of 1.2 times and NCA/TD of 3% as on FY2017-end. The company’s working capital intensity remained high, with NWC/OI at 20% in FY2018, due to stretched receivables and inventory. Further, the creditors also remained stretched to support the working capital.

Intense competition due to presence of numerous players– Timber sawing and trading is a low value-added business with stiff competition from numerous players operating in the fragmented industry, which keeps the margins under check.

Exposure to government regulations of importing country; volatility in timber prices– Majority of the company’s key raw material requirement, i.e. timber, is met through imports from New Zealand. This exposes the company to the risks associated with timber availability and adverse changes/restrictions in timber export policies by the Government of the timber supplying countries.

Vulnerability of profitability to adverse fluctuation in foreign currency exchange rate – Import constitutes a major part of VLPL’s total purchase and the entity does not have any formal hedging policy for its forex risk. Hence, it remains exposed to the risk of adverse movement in forex rates with respect to its import payables.

Liquidity position

VLPL’s fund flow from operations (FFO) turned positive to Rs. 0.31 crore in FY2018 compared to FY2017 and free cash flows (before debt repayment) turned positive due to lower incremental working capital requirement. The liquidity profile of the company remained tight because of stretched receivables. This has led to almost full utilisation of working capital requirement during July 2018-November 2018 and few instance of LC devolvement.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company:

Incorporated in 2002, Variety Lumbers Private Limited (‘VLPL’ or ‘the company’) processes and trades timber logs and manufactures wooden pallets. VLPL deals in radiate pine logs, which are majorly imported from New Zealand and Singapore. The plant is located at Gandhidham in Gujarat, which is close to the Kandla port. The company is promoted by the Dubey family, the key promoters being Mr. Swami Nath Dubey and his son Mr. Jay Kumar Dubey. The promoters have more than 25 years of experience in the timber business.

In FY2018, the company reported a net profit of Rs. 0.40 crore on an operating income (OI) of Rs. 43.90 crore compared to a net profit of Rs. 0.26 crore on an OI of Rs. 36.72 crore in the previous year.

Key financial indicators (audited):

	FY2017	FY2018
Operating Income (Rs. crore)	36.72	43.90
PAT (Rs. crore)	0.26	0.40
OPBDIT/ OI (%)	3.05%	4.71%
RoCE (%)	15.95%	16.60%
Total Debt/ TNW (times)	2.70	2.26
Total Debt/ OPBDIT (times)	8.55	4.33
Interest coverage (times)	1.30	1.39

Status of non-cooperation with previous CRA: None

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 as on March 31, 2018 (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				January 2019	December 2018			
Term Loan	Long Term	2.00	-	[ICRA]D	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable)	-	[ICRA]B+
Import Letter of Credit Cum Buyers Credit	Short Term	20.00*	-	[ICRA]D	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	-	[ICRA]A4

* Includes sublimit: BELC (Rs. 4.00 crore) and BG (Rs. 1.00 crore)

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

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	NA	NA	NA	2.00	[ICRA]D
NA	Import Letter of Credit cum Buyers Credit	NA	NA	NA	20.00	[ICRA]D

Source: VLPL

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