

Press Release

Rajkripal Exim Private Limited

February 26, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE BB/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 30.00 crore bank facilities of Rajkripal Exim Private Limited (REPL).

Rajkripal Exim Private Limited (REPL) was incorporated in 2004 by Mr. Sameer Garg and Mrs. Reeta Garg. The company is engaged in the business of manufacturing of plywood and trading of timber. The company imports timber from Malaysia and New Zealand, African and South American countries. The firm is operating via Kandla port; the manufacturing facility of company is located at Gandhidham. The major customers are from real estate, construction or trading.

Sanjay Kumar & Co Exim Limited (SKL) was incorporate in 2004 as a limited company by Mr. Sanjay Garg, Mr. Sameer Garg and Mr. Pawan Bansal. SKL is also engaged in the business of trading of timber. The company imports timber such as pinewood, teak, Malaysian Sal, and other types of wood from Ghana, Ecuador and Costa Rica and sells to the states such as U.P., Gujarat and Delhi. Company has its office in Delhi and warehouse in Gandhidham (Gujarat).

Gujarat based, Garg Lumbers Private Limited (GLPL) was incorporated in 2005 by Mr. Sameer Garg and Mrs. Reeta Garg. The company is a part of Delhi based Sumitra Rajkripal Group. GLPL is engaged in trading of timber logs and sawn timber. GLPL imports wood from Malaysia, Ghana, Costa Rica and Ecuador and sells it in domestic market mainly in five states i.e. Gujarat, Delhi, Haryana, Rajasthan and Uttar Pradesh.

Incorporated in 2004, Rajkripal Timber Industries Private Limited (RTPL) is also engaged in the business of trading of timber. The company is managed by Mr. Sanjay Garg and Ms. Poonam Kumar. It imports timber and core veneer from Vietnam and other countries. The firm is operating via Kandla port; the processing warehouse facility of company is located at Gandhidham.

About the Group

Rajkripal group was founded in 2004 by Mr. Garg and family. The group includes Garg Lumbers Private Limited (GLPL), Rajkripal Exim Private Limited (REPL), Rajkripal Timber Industries Private Limited (RTPL) and Sanjay Kumar and Company Exim Limited (SKL). The group is mainly engaged in trading of timber and is also engaged in manufacturing of plywood. The group has presence across Gujarat, Delhi, Haryana, Rajasthan and Uttar Pradesh among others.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of GLPL, REPL, RTPL and SKL, together known as Rajkripal Timber Group, to arrive at this rating. The consolidation is on account of common management, similar line of business, and operational linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

Rajkripal Group is mainly managed by the Garg family. The group is engaged in the trading of timber logs for more than 15 years. Now the business is managed by Mr. Sanjay Garg with around two decades of experience in the business by virtue of his prior employment in other companies related in the same line of business.

- **Healthy financial risk profile and Moderate scale of operation**

The group has moderate financial risk profile marked by moderate tangible net worth of Rs.35.06 crore as on 31 March, 2019 as compared to Rs.32.01 crore in the previous year. Net worth as on March 31, 2018 includes unsecured loans from Directors and relatives of Rs.10.89 crore which has been subordinated to the bank and hence treated as quasi equity by Acuité.

The improvement in the net worth has been due to accretion to reserves coupled with increase in the quasi equity levels. The gearing stood comfortable at 0.54 times as on 31 March, 2019 and 0.32 times as on 31 March, 2018. This is mainly on account of low external debt. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.98 times as on 31 March, 2019 as against 3.10 times as on 31 March, 2018. This is mainly due to high creditors during the period. Total debt of Rs. 18.93 crore consists of Rs. 2.36 crore of long term debt and Rs. 11.35 of unsecured loans from directors and relatives and Rs.5.22 crore of short term debt as on March 31, 2019. Interest Coverage Ratio (ICR) stood at 2.15 times for FY 2019 as against 2.22 times in FY2018. This is mainly due to low EBITDA during the year. Debt Service Coverage Ratio (DSCR) stood at 1.89 times in FY2019 as against 1.83 times in FY2018 in the absence of major long term debts. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.22 times as on 31 March, 2019 as against 0.42 times as on 31 March, 2018.

The scale of operations stood moderate and the same has improved with operating revenue to Rs.300.23 crore in FY2019 as compared to Rs.271.57 crore in FY2018 mainly due to better sales on account of acquisition of new customers. Further, the group has reported operating revenue of Rs.211.54 crore during April to December 2019 (Provisional). The group is expected to achieve the revenue in the range of Rs.300.00-310.00 crore by the end of the current financial year.

- **Moderate working capital nature of operation**

The group's working capital is moderate as reflected in gross current assets (GCA) of 139 days in FY2019 similar to 140 days in FY2018. The GCA days emanates from high debtor days of 95 days in FY2019 as compared to 90 days in FY2018. The inventory days stood moderate at 32 days in FY2019 as compared to 35 days in FY2018. The average bank limit utilization is 45 percent for six months ended December, 2019 and cash & bank balance of ~Rs.2.28 crore as on March, 2019. GCA days also incorporates the other current asset component amounting to Rs. 8.76 crore as on March 31, 2019.

Weaknesses

- **Profit margins are susceptible to volatility in raw material prices and forex fluctuation**

The major raw material procured by the firm is wood, which accounts for ~90 per cent of its cost of sales; and the prices of raw material are highly volatile in nature. The firm imports timber from Malaysia, Ghana, Costa Rica and Ecuador etc; hence profitability is exposed to forex fluctuation risk. The PAT margins of the group remain thin at less than 1.50 per cent for the period under study, due to trading nature of business.

The profitability of the company have declined during the period. The EBITDA margin stood at 2.89 percent in FY2019 as against 3.49 percent in FY2018. This is mainly due to increase in raw material prices. For the same period the PAT margin marginally declined and stood at 1.02 percent in FY2019 as against 1.15 percent in FY2018 due to loss in foreign exchange. However in the current financial year the EBITDA and PAT margin improved and stood at 3.29 percent and 1.30 percent respectively as on 31st December, 2019.

- **Risk related with regulatory changes in domestic and foreign countries**

The imports of the group are exposed to risk related with different regulatory changes in domestic and foreign countries. The imports of the group are subject to import duty by the government of India. Any increase in the import duty may increase the cost the imports of group. The imports of the group are also exposed to risk related with the changes in regulatory policies of exporting countries (suppliers). The ban in exporting countries could affect the business and financial risk of the entire group.

- **Competitive and fragmented nature of business**

The group is engaged in the trading of teak wood from countries such as Ghana, Ecuador, Costa Rica and several others. The group is selling teak wood to traders located all over India. The industry is marked by the presence of several medium to big size players. Hence, due to trading nature of business, the profitability margins of the company are at moderate levels.

Outlook: Stable

Acuite believes the Rajkripal Timber Group will maintain a 'Stable' business profile in the medium term owing to the experienced management. The outlook may be revised to 'Positive' in case the company achieves efficient working capital management along with healthy financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile of the company along with working capital management.

Material Covenant

None

Rating sensitivity

- Improvement in operating income.

Liquidity position: Adequate

Group has adequate liquidity marked by high net cash accruals to its maturing debt obligations. RKG generated cash accruals of Rs.4.24 crore in FY2019 as against no significant debt for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.4.50 crore to Rs.5.50 crore during FY2020-22 against as against debt maturity obligation of Rs.0.80 crore each year for the same period. The company's working capital operations are moderate marked by gross current asset (GCA) days of 139 days in FY2019. Company maintains unencumbered cash and bank balances of Rs.2.28 crore as on 31 March 2019. The current ratio stands at 1.44 times as on 31 March 2019.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	300.23	271.57
PAT	Rs. Cr.	3.06	3.12
PAT Margin	(%)	1.02	1.15
Total Debt/Tangible Net Worth	Times	0.54	0.32
PBDIT/Interest	Times	2.15	2.22

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-May-2019	Cash Credit	Long Term	4.00	ACUITE BB/Stable (Upgraded)
	Term Loan	Long Term	1.00	ACUITE BB/Stable

				(Upgraded)
	Letter of Credit	Short Term	25.00	ACUITE A4+ (Reaffirmed)
23-August-2018	Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A4+ (Reaffirmed)
29-May-2017	Cash Credit	Long Term	4.00	ACUITE BB-/Stable (Reaffirmed)
	Term Loan	Long Term	1.00	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	25.00	ACUITE A4+ (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	31-08-2016	Not Applicable	30-09-2021	1.00	ACUITE BB/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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