

Press Release

Parekh Timber Traders

July 11, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (**read as ACUITE BB minus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 11.50 crore bank facilities of PAREKH TIMBER TRADERS. The outlook is '**Stable**'.

Incorporated in 1984, Parekh Timber Traders (PTT) a Karnataka based partnership firm is engaged in wholesale and retail trading of wood used for windows, doors, interior designing etc. PTT was promoted by Mr. Devsi N Patel and Mr. Dilip Patel. The partners have experience of more than two decades in trading of wood. Currently company has one unit in Bangalore.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Established in 1984, PTT has a long operational track record of more than three decades in the trading of wood. Partners have experience of more than two decade in the same line of business. PTT has customer base spread across Karnataka and Tamil Nadu. About 65 per cent of its revenues comes from wholesale business, and remaining 35 per cent from retail sales. Further, the management of firm over the years has also built a healthy relationship with suppliers for procurement of raw materials (wood); about 60 per cent of its purchases are by way of imports against LC from Indonesia, Singapore, Tanzania among others; and rest from domestic market. Longstanding presence helped the firm in improving its revenues at a compound annual growth rate (CAGR) of about 29 per cent over four years through FY2018 (refers to financial year, April 1st to March 31st). Acuité believes that firm's revenue profile is expected to improve further supported by experienced management and established relation with its customers and suppliers.

- **Average financial risk profile**

The financial risk profile is marked by healthy gearing (debt-to-equity) of 0.37 times as on 31 March, 2017 underpinned by moderate net worth. The improvement in the net worth is owing to capital infused by partners of Rs.1.21 crore, resulting in net worth improving to about Rs.5.50 crores as on March 31, 2017 against Rs.4.29 crore as on March 31, 2016. However, its total outside liabilities to total networth (TOLTNW) is high at about 3 times as of March 31, 2018 owing to imports against letter of credit. Debt protection metrics are average: interest coverage ratio (ICR) at 1.32 times and net cash accruals to total debt (NCA/TD) of 0.10 times. Acuité believes that the financial risk profile is expected to deteriorate marginally owing to expected increase in revenues and incremental debt to support the business volumes; however, it continues to be at comfortable levels.

Weaknesses

- **Working capital intensive operations**

PTT's operations are working capital intensive which is evident from high gross current assets days of 162 days during FY2017 though improved from 197 days in FY2016. Inventory and debtors days stood at 44 and 108 days respectively in FY 2017 as compared to 108 and 81days in FY 2016. Further, PTT's liquidity profile is stretched as it utilizes more than 95% of its working capital limits.

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

The major raw material procures by the firm is wood which accounts for 91 percent of cost of sales; and the prices of raw material are highly volatile in nature. The firm imports 60 per cent of wood stock from Singapore, Malaysia and Tanzania, hence profitability is exposed to forex fluctuation risk. The PAT margins of the firm remains thin at less than 1 percent for the period under study, due to trading nature of business. The PAT margin stands at 0.70 percent in FY2017 against 0.73 percent in FY2016.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PTT

Outlook: Stable

Acuité believes that PTT will maintain a 'Stable' business risk profile over the medium term on the back of its experienced management and long operational track record. The outlook may be revised to 'Positive' if there is significant improvement in revenues while improving its profitability and TOLTNW. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or decline in profitability leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	37.03	27.98	23.07
EBITDA	Rs. Cr.	0.99	0.76	0.79
PAT	Rs. Cr.	0.26	0.20	0.18
EBITDA Margin	(%)	2.68	2.71	3.41
PAT Margin	(%)	0.70	0.73	0.76
ROCE	(%)	14.78	12.39	26.90
Total Debt/Tangible Net Worth	Times	0.37	0.67	0.91
PBDIT/Interest	Times	1.36	1.39	1.32
Total Debt/PBDIT	Times	1.79	3.19	3.36
Gross Current Assets (Days)	Days	162	197	198

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	1.50	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4

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About Acuité Ratings & Research:

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