

Press Release

Parekh Timber Traders

September 06, 2019



Rating Reaffirmed

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 reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B 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) is a Karnataka-based partnership firm engaged in wholesale and retail trading of timber used for windows, doors, interior designing etc. PTT was promoted by partners, Mr. Devsi N Patel and Mr. Dilip Patel. The partners have experience of more than two decades in the business of trading of wood.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of PTT to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations supported by experienced management**

Established in 1984, PTT has a long operational track record of more than three decades in the trading of wood. The partners have experience of more than two decades 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. Longstanding presence in the industry has helped the firm in improving its revenues at a compound annual growth rate (CAGR) of about 22 per cent over four years through FY2019 (Provisional). The revenues of PTT stood at Rs.50.93 crore for FY2019 (Provisional) as against Rs. 43.05 crore for FY2018. Acuité believes that firm's revenue profile will be sustained, supported by experienced management and established relations with its customers and suppliers.

- **Average financial risk profile**

PTT has followed a moderately aggressive financial policy in the past, the same is reflected through its gearing level that has deteriorated to around 1.85 times as on March 31, 2019 (Provisional) from 0.54 times in FY2018 on account of foreign currency loan (FCL) taken in FY2019 for import of raw materials. Total debt of Rs. 11.93 crore as on March 31, 2019 (Provisional) includes term loans of bank of Rs. 0.09 crore, Rs. 2.34 crore unsecured loans from promoters and FCL of Rs. 9.50 crore. The firm incurred capex of Rs. 1.34 crore over the last three years to expand its scale of operations, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs. 9.92 crore. The firm on the other hand generated cash accruals in the range of Rs.0.30 crore to 0.40 crore over the same period. This has led to increase in debt levels as on March 31, 2019 (Provisional). The gearing, however, is expected to remain stable at around 1.8 times as on March 31, 2020 on the back of no debt funded capex plan. The NCA/TD and interest coverage ratio for FY2019 were average at 0.03 times and 1.88 times respectively, for FY2019 (Provisional).

Weaknesses

- **Working capital intensive operations**

PTT has stretched working capital cycle marked by GCA days of 116 days in FY2019 (Provisional) as against 119 days in FY2018. The receivables period stood stable at 78 days in FY2019 (Provisional) as

against 83 days in FY2018. Inventory days decreased to 18 days in FY2019 (Provisional) as against 32 days in FY2018. The firm has kept moderate reliance on outside debt as reflected by utilization of working capital limit that stood at 80 per cent on an average for the last six months ended July 2019.

• 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 ~91 per cent of its cost of sales; and the prices of raw material are highly volatile in nature. The firm imports teak wood from Myanmar, Africa and Indonesia; hence profitability is exposed to forex fluctuation risk. The PAT margins of the firm remain thin at less than 1 per cent for the period under study, due to trading nature of business.

• Liquidity position

PTT has moderate liquidity marked by low net cash accruals. PTT generated cash accruals of Rs. 0.30 crore to 0.40 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.02 crore to 0.08 crore for the same period. The cash accruals of PTT are estimated to remain around Rs. 0.35 crore to 0.70 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 0.02 crore per annum. PTT's operations are moderately working capital intensive but PTT has kept moderate reliance on working capital borrowings, the cash credit limit in PTT remains utilized at 80 per cent during the last 6 months period ended July 2019. PTT maintains unencumbered cash and bank balances of Rs. 2.61 crore as on March 31, 2019 (Provisional). The current ratio of PTT stood moderate at 1.56 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of PTT is likely to remain moderate over the medium term on account of low growth in cash accruals over the medium term.

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 improvement in profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital management or further decline in profitability leading to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	50.93	43.05	37.03
EBITDA	Rs. Cr.	0.99	1.78	0.99
PAT	Rs. Cr.	0.31	0.33	0.26
EBITDA Margin	(%)	1.95	4.13	2.68
PAT Margin	(%)	0.61	0.77	0.70
ROCE	(%)	7.71	22.50	14.78
Total Debt/Tangible Net Worth	Times	1.85	0.54	0.37
PBDIT/Interest	Times	1.88	1.26	1.36
Total Debt/PBDIT	Times	10.60	1.62	1.79
Gross Current Assets (Days)	Days	116	119	162

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

Not applicable.

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
11-Jul-2018	Letter of Credit	Short Term	10.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	1.50	ACUITE BB- / Stable (Assigned)

***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 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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