

Press Release

Parekh Timber Traders

November 20, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.11.50 Cr.
Long Term Rating	ACUITE BB-/Outlook: 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 minus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.11.50 crore bank facilities of Parekh Timber Traders (PTT). The outlook is '**Stable**'.

Established in the year 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 is promoted by partners, Mr. Devsi N Patel, Mr. Dilip Patel and others who have experience of more than two decades in the business of trading of wood.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PTT to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

Established in the year 1984, PTT has a long track record of the operation of more than three decades in the business of trading of woods. The partners of the firm have experience of more than two decades in the same line of business. The experience of the partners has helped the firm in establishing healthy relationships with its customers and suppliers. PTT has its customer base spread across Karnataka and Tamil Nadu. The operating income of the firm has declined by around 15.12 percent in FY2020 to Rs.43.23Cr (Prov.) as against Rs.50.93Cr in FY2019.

Acuite believes that PTT will sustain its existing business risk profile on the back of established track record of operations, experienced management and healthy relations with its customers and suppliers.

• Above Average Financial Risk Profile

PTT's financial risk profile is above average marked by low net worth, low gearing and moderate debt protection metrics. The net worth of the firm stood at Rs.6.41Cr (Prov.) as on March 31, 2020 as against Rs.6.20Cr as on March 31, 2019. The firm has followed conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.81times and 2.78 times respectively as on March 31, 2019. The leverage levels have remained low to 0.77 times (Prov.) as on March 31, 2020. The firm incurred capex of Rs.2.43Cr over the last year to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in the scale of operation has been around Rs. (0.20) Cr. The firm, on the other hand, generated cash accruals in the range of Rs.0.45Cr to Rs.0.55Cr over the same period. PTT's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.0.55Cr to Rs.0.70Cr. The gearing however, is expected to remain low at around 0.88 times as on March 31, 2021 on back of absence of any major debt-funded capex plan.

The revenue of the firm has declined by around 15.12 percent to Rs.43.23Cr (Prov.) in FY2020 as against Rs.50.93Cr in FY2019, while its operating margins has improved to 3.01percent (Prov.) in FY2020 as against 2.57 percent in FY2019. The low profitability levels, coupled with moderate debt levels, have led to moderate debt protection metrics. The NCA/TD and interest coverage ratio stood at 0.10 times (Prov.) and 1.51 times (Prov.) respectively in FY2020 as against 0.04 times and 1.45 times respectively in FY2019. The Debt-EBITA ratio stood at 3.30 times (Prov.) in FY2020 as against 7.67 times in FY2019.

Weaknesses

- **Working capital intensive nature of operations**

PTT's working capital operation is intensive in nature marked by high gross current asset (GCA) days of around 153 days (Prov.) in FY2020 as against 158 days in FY2019. The firm had maintained an inventory holding period of around 23 days (Prov.) as on March 31, 2020 as against 15 days as on March 31, 2019. PTT had extended a credit period of around 104 days (Prov.) as on March 31, 2020 to its customer as against 92 days as on March 31, 2019. On the other hand, the firm's credit payment period to its suppliers has increased to 96 days (Prov.) as on March 31, 2020 as against 46 days as on March 31, 2019. As a result, the reliance on the working capital limit is moderately high, leading to high utilization of its bank line at an average of around 85.67 percent over the last six months through September, 2020, while its peak utilization was high at around 99.33 percent during the same period. Acuite believes that the working capital operations of the firm will continue to remain intensive on account of its high receivable collection period.

- **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 Singapore, Africa and Indonesia; hence profitability is exposed to forex fluctuation risk. The PAT margins of the firm remain thin at around 1.02 per cent for the period under study, due to the trading nature of business.

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.51Cr (Prov.) in FY2020 as against maturing debt obligation of Rs.0.05Cr (Prov.) during the same period. The cash accrual of the firm is estimated to remain around Rs.0.55Cr to Rs.0.70Cr during FY2021-2023 against repayment obligation of Rs.0.05Crore during the same period. The firm's working capital operation is intensive in nature marked by gross current asset (GCA) days of 153 days (Prov.) for FY2020. The average bank limit utilization stood at 85.67 percent for the last six months ended September, 2020. The firm maintains unencumbered cash and bank balances of Rs.0.15Cr as on March 31, 2020 as against Rs.2.28Cr as on March 31, 2019. The current ratio has declined to 1.36 times (Prov.) as on March 31, 2020 as against 1.45 times as on March 31, 2019. Acuite believes that the liquidity of the firm to remain adequate over the medium term on account of adequate net cash accruals to no significant debt repayments over the medium term.

Rating Sensitivities

- Improvement in scale of operation while improving the profitability margin
- Any further slippage in the debtor collection will further affect the liquidity of the firm

Outlook: Stable

Acuite believes that PTT will maintain a 'Stable' outlook over the medium term on the back of its experienced management and long operational track record. The outlook may be revised to 'Positive', if the firm demonstrates higher than expected growth in its revenue and profitability from the current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the firm faces any stretch in the working capital management or decline in the profitability leading to deterioration in the financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	43.23	50.93
PAT	Rs. Cr.	0.44	0.38
PAT Margin	(%)	1.02	0.75
Total Debt/Tangible Net Worth	Times	0.77	1.81
PBDIT/Interest	Times	1.51	1.45

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Sep-2019	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
11-Jul-2018	Cash Credit	Long Term	1.50	ACUITE BB-/Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4 (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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