

Press Release

Parekh Timber Traders

October 21, 2022



Rating Assigned, Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.50	-	ACUITE A4 Assigned
Bank Loan Ratings	0.50	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	1.50	ACUITE BB- Stable Upgraded	-
Bank Loan Ratings	10.00	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	12.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to **'ACUITE BB-'** (read as **ACUITE double B minus**) from **'ACUITE B+'** (read as **ACUITE B plus**) and reaffirmed short-term rating of **'ACUITE A4'** (read as **ACUITE A four**) on Rs.11.50 crore bank loan facilities of Parekh Timber Traders (PTT). Further, Acuite has assigned 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 Rs.1.00 crore bank loan facilities of Parekh Timber Traders. The outlook is **'Stable'**.

Rationale for the rating

The rating upgrade factors in the established track record of operation of the firm and experienced management. The rating also factors the average financial risk profile and adequate liquidity position of the firm. However, the rating is constrained by the intensive nature of working capital operations and susceptibility of the profitability to volatility in the prices of raw materials and forex fluctuations.

About the Company

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 a standalone approach to arrive at the rating of Parekh Timber

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.

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.

Average financial risk profile

Financial risk profile of the firm is average with moderate network, low gearing and comfortable debt protection indicators. Network of the firm stood at Rs.7.40 crores as on 31st March 2022 as against Rs.7.24 crores as on 31st March 2021. Improvement in network is on account of accretion of profits to reserves. Gearing of the firm remained low at 0.55 times as on 31st March 2022 as against 0.45 times as on 31st March 2021. Total outside liabilities to Tangible net worth (TOL/TNW) stood at 2.12 times as on 31st March, 2022 as against 2.05 times as on 31st March 2021. Interest coverage ratio stood comfortable at 1.34 times in FY22 as against 1.38 times in FY21.

Acuite believes that the financial risk profile is likely to remain moderate in the absence of any debt-funded capital expenditure and any large deviations in incremental working capital requirements.

Weaknesses

Intensive Working capital operations

Working capital operations of the firm are intensive marked by GCA days of 173 days in FY22 as against 177 days in FY21. GCA days are driven by high debtor days. The firm offers a credit period of 90 days to its customers. Debtors collection period stood at 129 days in FY22 as against 124 days in FY21. Inventory holding period stood at 45 days in FY22 as against 46 days in FY21. Creditor days stood at 126 days in FY22 as against 127 days in FY21.

Acuite believes that the working capital operations of the firm will remain intensive over the medium term and will continue to remain a key rating sensitivity.

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.

Material covenants

None

Liquidity Position

Liquidity of the firm is adequate with average bank limit utilization of 71.21 percent for seven months ended August 2022. Net cash accruals of the firm are sufficient with no maturing debt obligations. Net cash accruals of the firm remained sufficient NCA stood at Rs.0.31 crores in

FY22 as against Rs.0.45 crores in FY21. Unencumbered cash balance maintained by the firm stood at Rs.0.15 crores as on 31st March, 2022.

Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of expected improvement in the scale of operations.

Outlook: Stable

Acuité believes that the firm will continue to maintain a 'Stable' outlook over near to medium term owing to its established market position and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability level and margins, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	36.00	35.23
PAT	Rs. Cr.	0.24	0.37
PAT Margin	(%)	0.67	1.05
Total Debt/Tangible Net Worth	Times	0.55	0.45
PBDIT/Interest	Times	1.34	1.38

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entitle: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Feb 2022	Cash Credit	Long Term	1.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Issuer not co-operating*)
20 Nov 2020	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)
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	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- Stable Upgraded
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.45	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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