

**Press Release**  
**Parekh Timber Traders**  
**January 19, 2024**  
**Rating Reaffirmed**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	ACUITE BB-   Stable   Reaffirmed	-
Bank Loan Ratings	10.50	-	ACUITE A4   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	12.50	-	-

**Rating Rationale**

Acuite has reaffirmed the 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.12.50 crore bank loan facilities of Parekh Timber Traders (PTT). The outlook is '**Stable**'.

**Rationale for the rating**

The rating reaffirmation continues to reflect the stable operating performance of the firm marked by improvement in the revenue of Rs.52.66 crore in FY2023 as against Rs.34.63 crore in FY2022. The rating further draws comfort from experienced management, established track record of operations, healthy relations with its customers and adequate liquidity position of the firm. However, the rating is constrained by the below average financial risk profile, 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. Vinodkumar Patel, Mr. Vijay Patel and others who have experience of more than two decades in the business of trading of wood.

**Unsupported Rating**

Not Applicable

**Analytical Approach**

Acuite has considered a standalone approach to arrive at the rating of Parekh Timber Traders (PTT)

**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. Further, the revenue of the firm

improved to Rs.52.66 Cr in FY2023 as against Rs.34.63 Cr in FY2022. Also, around 60-70% of the sales are B2B sales and till December 2023, the firm has achieved Rs.33 crore.

Acuité 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.

### **Weaknesses**

#### **Below Average Financial Risk Profile**

Financial risk profile of the firm is below average with low net worth, high gearing and comfortable debt protection indicators. Net worth of the firm stood at Rs.3.77 crore as on 31st March 2023 as against Rs.8.05 crore as on 31st March 2022. The deterioration in the net worth is because of withdrawal of capital by partners to the tune of Rs. 4.28 Cr. Gearing of the firm stood high at 4.42 times as on 31st March 2023 as against 1.37 times as on 31st March 2022. Total debt of the firm comprises of short-term debt of Rs. 6.59 crore and unsecured loans of Rs.10.08 crore. Out of the total unsecured loan, around Rs.6 crore includes retired partner's amount, and the rest is from partners and relatives with an interest rate of 6 to 12 percent. Total outside liabilities to Tangible net worth (TOL/TNW) stood at 5.11 times as on 31st March, 2023 as against 1.81 times as on 31st March 2022. The firm does not have any term loans. Interest coverage ratio stood comfortable at 2.10 times in FY23 as against 2.33 times in FY22. Net Cash Accruals to Total Debt (NCA/TD) of the firm stood at 0.07 times for FY2023 as against 0.09 times for FY2022.

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

#### **Intensive Working capital operations**

Working capital operations of the firm are moderately intensive marked by improvement in GCA days of 118 days in FY23 as against 182 days in FY22. 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 85 days in FY23 as against 130 days in FY22. Inventory days stood at 29 days in FY23 as against 43 days in FY22. Generally, the inventory holding period is around 30-45 days. Round logs and lumbers form a part of raw materials which are majorly imported from Indonesia, Dubai, Malaysia and other countries in Africa. The firm opens an LC of 180 days for such purchases. Creditor days stood at 19 days in FY23 as against 38 days in FY22.

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 ~90-95 per cent of its cost of sales; and the prices of raw material are highly volatile in nature. The firm imports teak wood from Dubai, Indonesia, Malaysia and African countries; hence profitability is exposed to forex fluctuation risk. Further, the operating margins of the firm deteriorated to 3.87 percent in FY2023 as against 4.49 percent in FY2022 due to increase in raw material prices. Also, the PAT margins of the firm remain thin at around 1.86 per cent for FY2023, due to the trading nature of business.

### **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

### **Liquidity Position**

#### **Adequate**

The firm's liquidity position is adequate, marked by net cash accruals against the comfortable maturity debt obligations. The firm generated net cash accruals in the range of Rs.0.45-1.11 Crore from FY 2021- 2023. In addition, it is expected to generate sufficient cash accrual in the range of Rs.0.90-1.25 crores over the medium term. The working capital management of the firm is moderately intensive marked by GCA days of 118 days in FY2023 as against 182 days in FY2022. The average utilization of the fund-based limits stood around 60 per cent and for non-fund-based limits stood around 60-70 percent for past 06 months ended October 2023. The firm maintains unencumbered cash and bank balances of Rs.0.27 crore as on March 31, 2023. The current ratio of the firm stands at 2.08 times as on March 31, 2023 as against 1.56 times as

on 31 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	52.66	34.63
PAT	Rs. Cr.	0.98	0.86
PAT Margin	(%)	1.86	2.49
Total Debt/Tangible Net Worth	Times	4.42	1.37
PBDIT/Interest	Times	2.10	2.33

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

Not Applicable

### Any other information

None

### Applicable Criteria

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Oct 2022	Cash Credit	Long Term	1.50	ACUITE BB-   Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	0.45	ACUITE BB-   Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	0.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	0.05	ACUITE BB-   Stable (Assigned)
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*)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.95	ACUITE BB-   Stable   Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE A4   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.05	ACUITE BB-   Stable   Reaffirmed

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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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