

Press Release

Globe Panel Industries India Private Limited

April 03, 2019



Rating Reaffirmed

| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 86.80 Cr. |
| Long Term Rating | ACUITE BBB-/Outlook: Stable |
| Short Term Rating | ACUITE A3 |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of 'ACUITE BBB-' (**read as ACUITE triple B minus**) and short term rating of 'ACUITE A3' (**read as ACUITE A three**) to the Rs.86.80 crore bank facilities of Globe Panel Industries India Private Limited (GPPL). The outlook is 'Stable'.

The rating reaffirmation reflects performance in line with Acuité's expectations of revenues and sustenance of the profitability margins. The rating also factors in diversified product profile, geographical reach, moderate liquidity and financial risk profile backed by established track record and extensive experience of its promoters in the plywood and laminate industry. However, the ratings are constrained by highly fragmented and competitive nature of industry and high working capital intensive operations.

GPPL was incorporated in April 2010 by Mr. Sarwan Aggarwal along with his family members. The company is involved in the manufacturing of plywood, laminates, Flush Door, Formaldehyde and other allied products. The company has six manufacturing units, all of which are located in Yamuna Nagar (Haryana). It markets the products under 'G L Plywood' brand.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Promoters' extensive experience and domestic plywood and laminate industry**

The key promoters, Mr. Sarwan Agrawal (Founder & Chairman) has experience of more than three decades in the said line of business. Mr. Sarwan's sons- Mr. Sanjeev Agrawal, Mr. Sourav Agrawal and Mr. Rajan Agrawal along with Mr. Dinesh Goel (Managing Director) have experience for over two decades in this industry. The company offers a wide range of products in all segments including plywood, laminate and decorative industry.

GPPL has four manufacturing units for its plywood division and two for its laminate division and one for Formaldehyde division. As the laminate and plywood business are distribution-intensive, GPPL has complimented its capacity expansion by enhancing its distribution strength. At present, it has an extensive dealer network of 18 states across the country for better reach to its target market. GPPL's wide distribution network and established brand name of 'G L Plywood' helped the company in significant growth in its revenues at a compound annual growth rate of about 72 per cent in the last four years despite strong competition from the unorganised sector. The company recorded revenues of Rs.240.83 crore for 10MFY2019 and targeted revenues of about Rs.300 crore for FY2019. Acuité believes that GPPL continues to enjoy the benefit of its geographically diversified revenue profile along with experienced management.

- **Moderate financial risk profile**

GPPL's financial risk profile is moderate marked by moderate debt protection metrics though constrained by high gearing and total outside liabilities to total net worth (TOL/TNW). GPPL's gearing (debt-to-equity) and TOL/TNW have deteriorated marginally owing to sharp increase in revenue profile and working capital intensive operations at 3.64 and 2.03 times in FY2018, against 2.66 and 1.42 times in FY2017, respectively. Its net worth is moderate at Rs.43.08 crore as on March 31, 2018. The operating margins are moderate and stable at about 6.86 and 6.82 per cent in FY2018 and FY2017;

however, debt-funded working capital operations have resulted in low PAT margins at 1.71 per cent and moderate accruals. The GPPL's debt protection metrics are moderate with interest coverage ratio (ICR) of 2.20 times and net cash accruals to total debt of 0.07 times for FY2018 as against 1.79 times and 0.05 times respectively in FY2017. GPPL reported cash accruals of Rs.6.31 crore in FY2018. Acuité believes that with moderate accruals, repayment of term loans and no significant capex plans over the medium term, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

- **Highly working capital intensive operations**

GPPL's operations are highly working capital intensive as evident from Gross Current Assets (GCA) of 248-278 days over the three years ended March 31, 2018, driven by high receivables (139-142 days) and inventory levels of about 3 months for the same period. However, its working capital requirement is partly supported by stretched creditors to the tune of about 100 days. High GCA and working capital intensity lead to utilisation of its bank limits of Rs. 50 crore at an average of around 94 per cent over six months ended January 2019. Acuité believes that GPPL's operations continue to be working capital intensive over the medium term.

- **Highly fragmented and competitive nature of the plywood industry**

The plywood market is primarily controlled by the unorganised sector, which accounts for around 70 per cent of the total market size. The plywood industry is an intensely competitive and fragmented industry because of low entry barriers and moderate capital requirements. The industry is marked by large as well as several small players. The high competitive intensity limits the pricing flexibility and exerts pressures on the margins of all participants. Further, plywood industry is directly linked to the real estate sector and cyclical in nature and depends on the economic cycle. However, the established brand presence diversified geographical presence and experienced management mitigates the risk to some extent.

Liquidity Position:

GPPL's liquidity is comfortable marked by moderate net cash accruals to its maturing debt obligations. GPPL generated cash accruals of Rs.2.84-6.31 crore during the last three years through 2017-18, while its maturing debt obligations were about Rs.0.50 crore over the same period. GPPL's cash accruals are estimated at around Rs.9-13 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.00 crore with modest regular capex of about Rs.3-8 crore. GPPL's operations are highly working capital intensive as marked by gross current asset (GCA) days of 284 in FY 2018. Its cash credit limits were highly utilised at about 94 percent during the last six months period ended January 2019. The current ratio of GPPL is moderate at 1.38 times as on March 31, 2018. Acuité believes that liquidity profile of GPPL continues to be at comfortable levels over the medium term.

Outlook: Stable

Acuité believes that GPPL will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or any significant debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 251.21 | 134.67 | 115.97 |
| EBITDA | Rs. Cr. | 17.23 | 9.19 | 8.22 |
| PAT | Rs. Cr. | 4.29 | 0.67 | 1.33 |
| EBITDA Margin | (%) | 6.86 | 6.82 | 7.09 |
| PAT Margin | (%) | 1.71 | 0.50 | 1.15 |
| ROCE | (%) | 13.42 | 7.57 | 18.09 |
| Total Debt/Tangible Net Worth | Times | 2.03 | 1.42 | 1.62 |
| PBDIT/Interest | Times | 2.20 | 1.79 | 1.85 |
| Total Debt/PBDIT | Times | 5.08 | 6.70 | 5.53 |
| Gross Current Assets (Days) | Days | 249 | 315 | 278 |

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>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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 |
|-------------|---------------------------------|------------|-----------------|---------------------------------|
| 10-Jan-2018 | Cash Credit | Long Term | 40.00 | ACUITE BBB- / Stable (Upgraded) |
| | Overdraft | Long Term | 4.50 | ACUITE BBB- / Stable (Upgraded) |
| | Term loan | Long Term | 1.28 | ACUITE BBB- / Stable (Upgraded) |
| | FLC/ILC | Short Term | 2.00 | ACUITE A3 (Assigned) |
| | Proposed | Long Term | 34.02 | ACUITE BBB- / Stable (Assigned) |
| 09-May-2017 | Cash Credit | Long Term | 24.00 | ACUITE BB+/ Stable (Assigned) |
| | Overdraft | Long Term | 5.00 | ACUITE BB+/ Stable (Assigned) |
| | Term loan | Long Term | 1.80 | 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 | 50.00 (Enhanced from Rs.45.00 Crs) | ACUITE BBB- / Stable (Reaffirmed) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 25.00 | ACUITE BBB- / Stable (Reaffirmed) |
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 5.00 (Enhanced from Rs.4.50 Crs) | ACUITE BBB- / Stable (Reaffirmed) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 1.28 | ACUITE BBB- / Stable (Reaffirmed) |
| FLC/ILC | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3 (Reaffirmed) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 3.52 (Revised from Rs.34.02 Crs) | ACUITE BBB- / Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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