

Press Release

Garg Lumbers Private Limited

May 17, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 28.00 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (**read as SMERA double B**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs.28.00 crore bank facilities of Garg Lumbers Private Limited. The outlook is '**Stable**'.

The Gujarat-based, GPL was incorporated in 2005 by Mr. Sameer Garg and Mrs. Reeta Garg. GPL is a part of Delhi-based Sumitra Rajkripal Group. GPL is engaged into trading of timber logs and sawn timber. GPL imports woods from Malaysia, Ghana, Costa Rica, New Zealand to name a few and sells the same in domestic markets.

Key rating drivers

Strengths

Experienced management:

The promoters have an experience of more than two decades in trading of timber logs and sawn timber.

Moderate financial risk profile:

GPL has moderate financial risk profile marked by tangible net worth of Rs.7.65 crore as on 31 March, 2017 as against Rs.7.02 crore as on 31 March, 2016. It includes unsecured loan of Rs.3.20 crore as on 31 March, 2017 which is considered as quasi-equity as same is subordinated to bank debt. The adjusted gearing stood at 0.08 times as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 1.94 times for FY2017 as against 1.93 times in FY2016. Debt Service Coverage Ratio (DSCR) stood at 1.68 times for FY2017 as against 1.71 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.05 times as on 31 March, 2017 as against 2.21 times as on 31 March, 2016. Going forward, SMERA expects the financial risk profile to improve marginally in absence of major debt funded capex plans.

Weaknesses

Working capital intensive operations:

The operations are working capital intensive marked by Gross Current Asset (GCA) of 143 days in FY2017 compared to 106 days in FY2016. The GCA days are mainly dominated by high debtor days of 102 in FY2017 compared to 60 in FY2016. SMERA believes that the efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

Competitive and fragmented industry:

GLPL operates in a highly competitive and fragmented industry characterised by large number of unorganised players affecting margins.

Low operating profitability:

The company has low profitability with operating margins of 2.11 percent in FY2017 as against 1.9 percent in FY2016 due to the trading nature of business.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Garg Lumbers Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that GLPL will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	83.23	58.29	61.22
EBITDA	Rs. Cr.	1.76	1.11	1.03
PAT	Rs. Cr.	0.62	0.36	0.34
EBITDA Margin	(%)	2.11	1.91	1.69
PAT Margin	(%)	0.74	0.62	0.56
ROCE	(%)	26.95	19.24	33.40
Total Debt/Tangible Net Worth	Times	0.08	0.00	0.29
PBDIT/Interest	Times	1.94	1.93	2.21
Total Debt/PBDIT	Times	0.27	0.00	1.10
Gross Current Assets (Days)	Days	143	106	121

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

CARE, vide its press release dated February 27, 2018 had denoted the rating of Garg lumbers Private Limited as 'CARE BB-/Stable/CARE A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BB-/Stable/CARE A4+' vide its press release dated January 09, 2017.

Any other information: Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years): Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB/ Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A4+

Contacts:

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smerra.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smerra.in
Amogh Kharkar, Analyst - Rating Operations Tel: +91-22-6714 1315 amogh.kharkar@smerra.in	

ABOUT SMERA

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