

Press Release

Puthupalayam Timbers Industries

December 05, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.11.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating '**ACUITE B** (read as **ACUITE B**) and the short-term rating '**ACUITE A4 (read as ACUITE A four)** on the Rs.11.00 crore bank facilities of Puthupalayam Timbers Industries (PTI). The outlook is '**Stable**'.

PTI was established by Mr. R. Velayutha Raja, Mr. V. Vidhya Gayathri and Mr. Rithish Krishna in 1978. PTI is engaged in wholesale trading of imported timbers such as Teak Logs, Merbau Saw Timbers and Mora Logs. The firm imports timber from Hong Kong, Malaysia and Singapore and sells to Jhonson Wood Industries, Sri Kumaran Industries and others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The partners, Mr. R. Velayutha Raja, Mr. V. Vidhya Gayathri and Mr. Rithish Krishna, have extensive experience of more than three decades in the timber industry. The extensive experience of promoters has helped to establish healthy relationship with customers and suppliers. Acuité believes that the experience of the management is expected to support the business risk profile over the medium term.

Weaknesses

- **Uneven revenue profile and modest scale of operations**

The firm is operating from last four decades and the revenues of the firm are modest and experienced uneven revenue trend. The revenue registered in FY2019 was Rs.21.83 as against Rs.17.66 crore in FY2018 and Rs.18.58 in FY2017. Further, the firm reported revenue of Rs.13.00 crore till October, 2020 (Provisional). The ability of the firm to improve its scale going forward will remain a key rating sensitivity.

- **Working capital intensive operations**

Operations of the firm are working capital intensive marked by high gross current asset (GCA) of 192 days for FY2019 as compared 222 days for FY2018. This is mainly on account of high collection period and moderate inventory days. Debtor and inventory days are 112 and 75 in FY2019 as against 129 and 73 in FY2018, respectively. The creditors also stood high at 146 days in FY2019 as against 214 days in FY2018. Acuité believes that PTI's operations continue to be working capital intensive over the medium term.

- **Competitive and fragmented industry**

PTI is into trading business which is marked by the presence of several mid to large sized players. Acuité believes that PTI revenues and margins are susceptible to the competitive nature of business.

Rating Sensitivities

- Substantial improvement in scale of operation, while improving profitability margin.
- Elongated working capital cycle.

Material covenants

None

Liquidity Position: Stretched

Liquidity profile of PTI is stretched reflected by high GCA of 192 days in FY2019 as against 222 days in FY2018. The utilisation of working capital limits remains more than 90 per cent. PTI has reported cash accruals of Rs.0.33 crore in FY2019 and expected to generate cash accruals in the range of Rs.0.32-0.36 crore over the medium term. The current ratio stood at 1.31 times in FY2019. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of improvement in working capital cycle.

Outlook: Stable

Acuité believes that PTI will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability, while improving its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	21.83	17.66	18.58
PAT	Rs. Cr.	0.25	0.28	0.50
PAT Margin	(%)	1.13	1.58	2.68
Total Debt/Tangible Net Worth	Times	0.68	0.17	0.20
PBDIT/Interest	Times	1.71	2.05	2.89

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

None

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
27-Nov-2018	Cash Credit	Long Term	1.00	ACUITE B / Stable (Assigned)
	Letter of Credit	Long 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	1.00	ACUITE B / 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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