

## Press Release

### Puthupalayam Timber Industries

February 26, 2021



### Rating Assigned and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs.11.00 Cr.
<b>Long Term Rating</b>	ACUITE B/Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

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

#### Reason for rating assigned and reaffirmation

The rating factors in the strength derived from the experienced management led by Mr. R. Velayutha Raja, Mrs. V. Vidhya Gayathri and Mr. Ritish Krishnna Raja having experience of more than three decades of experience in the wholesale trading industry. The rating also derives comfort from established track record of operations. The rating is, however, constrained due to modest scale of operations, working capital intensive nature of operations and intense competition.

#### About the company

Tamil Nadu based PTI was established as a partnership firm by Mr. R. Velayutha Raja, Mrs. 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 PTI to arrive at this rating.

### Key Rating Drivers

#### Strengths

- Experienced management and established track record of operations**

Tamil Nadu based PTI was incorporated in 1978 as a partnership firm by Mr. R. Velayutha Raja, Mrs. V. Vidhya Gayathri and Mr. Rithish Krishna. The partners of the firm possess over three decades of experience in the trading business. The extensive experience of the promoters has helped the firm to established strong ties with its suppliers and customers.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with both customers as well as suppliers in 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 revenues of the firm declined to Rs.17.90 Cr. in FY20 as against Rs.21.83 Cr. in FY19 and Rs.17.66 Cr. in FY18. Further, the firm reported revenue of Rs.16.13 Cr. in April, 20 to Jan, 21 period of FY21.

The ability of the firm to improve its scale of operations going forward will remain a key rating sensitivity.

• **Working capital intensive operations**

The operations of the firm is working capital intensive marked by high Gross Current Asset (GCA) days of 188 days in FY20 as against 192 days in FY19. This is majorly on account of high inventory days of 77 days in FY20 as against 75 days in FY19. The debtor days stood at 107 days in FY20 as against 112 days in FY19. Subsequently, the payable period decline to 111 days in FY20 as against 146 days in FY19, respectively. Further, the average bank limit utilization in the last six months ended Dec, 20 remain at ~66 percent.

Acuité believes that the firm operations will continue to remain working capital intensive over the medium term.

• **Competitive and fragmented industry**

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

**Rating Sensitivity**

- Improvement in revenues while maintaining profitability margins
- Stretch in working capital cycle leading to increase in dependence of bank borrowing and deterioration in liquidity position

**Material covenants**

None

**Liquidity: Stretched**

The liquidity profile of the firm is stretched reflected by high GCA of 188 days in FY20 as against 192 days in FY19. The working capital requirement is funded through bank lines which has been utilized around 66 per cent in last six months ended Dec, 20. The firm has reported cash accruals of Rs.0.24 Cr. in FY20 and expected to generate cash accruals in the range of Rs.0.32-0.49 Cr. over the medium term. The current ratio of the firm stood at 1.27 times in FY20. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of working capital intensive nature of operations.

**Outlook: Stable**

Acuité believes that the firm will maintain a 'Stable' business risk profile in the medium term on account of its experienced management and improvement scale of operations. The outlook may be revised to 'Positive' in case the firm registers higher than expected growth in revenues and profitability while maintaining efficient working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, or in case of elongated working capital cycle.

**About the Rated Entity - Key Financials**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	17.90	21.83
PAT	Rs. Cr.	0.19	0.25
PAT Margin	(%)	1.04	1.13
Total Debt/Tangible Net Worth	Times	0.82	0.68
PBDIT/Interest	Times	1.52	1.71

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

Not Available

**Any other information**

Not Available

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-December-2019	Cash Credit	Long Term	1.00	ACUITE B/Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
27-November-2018	Cash Credit	Long Term	1.00	ACUITE B/Stable (Assigned)
	Letter of Credit	Short 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
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4 (Reaffirmed)

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**About Acuité Ratings & Research:**

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