

Press Release



Puthupalayam Timber Industries

May 09, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.50	ACUITE B Stable Reaffirmed	-
Bank Loan Ratings	9.50	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	11.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The rating factors in the strength derived from the experienced management, and 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 Firm

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

Acuite 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.

- **Moderate Financial risk profile**

The firm has a moderate financial risk profile mainly marked by low net worth, moderate gearing and debt protection matrices. The tangible net worth of the firm stood low at Rs.3.67 Cr as on 31 March, 2021 as against Rs.3.32 Cr as on 31 March, 2020. The gearing of the firm improved to 0.54 times in as on 31 March, 2021 as against 0.82 as on 31 March, 2020. The total debt as on 31 March, 2021 consist of working capital limits from banks of Rs.1.37 Cr and unsecured loan from promoters of Rs.0.60 Cr. The increase in interest cost resulted in deterioration in debt protection matrices marked by Interest Coverage Ratio (ICR) of 1.43 times as on 31 March, 2021 as against 1.52 times as on 31 March, 2020. Further, the debt to EBITDA of the firm improved to 2.32 times as on 31 March, 2021 as against 3.85 times as on 31 March, 2020. However, the TOL/TNW stood to 2.52 times as on 31 March, 2021 as against 2.36 times as on 31 March, 2020. Acuite believes that the financial risk profile of PTI will continue to remain moderate over the medium term in the absence of any major debt-funded capital expenditure.

Weaknesses

- **Working capital intensive operations**

The operations of the firm is working capital intensive marked by high Gross Current Asset (GCA) days of 196 days as on 31 March, 2021 as against 188 days as on 31 March, 2020. This is majorly on account of increase in debtor days to 132 days as on 31 March, 2021 as against 107 days as on 31 March, 2020. Inventory days stood at 62 days as on 31 March, 2021 as against 77 days as on 31 March, 2020. Subsequently, the payable period increased to 140 days as on 31 March, 2021 as against 111 days as on 31 March, 2020 respectively. Further, the average bank limit utilization in the last twelve months ended January 2022 remained at ~83.33percent. Acuite believes that the scale of operations will remain sensitive because of the nature of the business and high competition from other companies in the industry.

- **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. Acuite believes that PTI revenues and margins are susceptible to the competitive nature of business.

- **Risks of withdrawal of capital by partners**

Entity, being a partnership firm, is exposed to adverse capital structure risk, where any substantial capital withdrawal could negatively impact its net worth and capital structure and the liquidity position.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged.
- Sustainable improvement in Leverage and Solvency position of the company.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Anyweakening of financial risk profile of the company.
- Any substantial capital withdrawal could impact its net worth and capital structure and the liquidity position.

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of the firm is adequate reflected in bank lines which has utilized around 83.33 percent in last twelve months ended January 2022. The firm has reported cash accruals of Rs.0.26 Cr. in FY21 and expected to generate cash accruals in the range of Rs.0.40-0.66 Cr. over the medium term against CPLTD of Rs.0.12 Cr. Unencumbered cash and bank balances stood at Rs.0.09 Cr as on March 31, 2021. The current ratio of the firm stood at 1.27 times in FY21. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	20.35	17.90
PAT	Rs. Cr.	0.20	0.19
PAT Margin	(%)	0.96	1.04
Total Debt/Tangible Net Worth	Times	0.54	0.82
PBDIT/Interest	Times	1.43	1.52

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

Not Available

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Feb 2021	Proposed Bank Facility	Long Term	1.50	ACUITE B Stable (Assigned)
	Letter of Credit	Short Term	9.50	ACUITE A4 (Reaffirmed)
05 Dec 2019	Letter of Credit	Short Term	10.00	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE B Stable (Reaffirmed)
27 Nov 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
DBS Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B 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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