

Press Release

Shiv Prasad Enterprises

February 16, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 33.59 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 33.59 crore bank facilities of Shiv Prasad Enterprises (SPE). The outlook is '**Stable**'.

About the firm

SPE is a Mumbai based partnership firm established in the year 1993 by Mr. Kirti Patel and his family members. SPE caters primarily to export market. SPE is engaged in mercantile trading procuring timber from Burma and sells it in domestic as well as overseas markets such as Europe and Middle East.

About the Group

Mumbai based, Shiv Prasad Group (SPG) was established in 1975 by Mr. Kirti Patel and is currently being managed by his sons- Mr. Nilesh Kirti Patel and Mr. Nitin Kirti Patel. The group is engaged in merchant trading of timber- teak wood.

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of Shree Shankar Vijay Timber Exports Private Limited (SVPL), Shiv Prasad Enterprises (SPE) and Shiv Prasad Eco Touchwood Private Limited (SPPL) to arrive at the rating. The three companies together, shall hereby be referred to as the 'Shiv Prasad Group' (SPG). The consolidation is in view of same business line, operational synergies, and common management. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Extensive experience and established track record of operations

SPG was established in 1982 by Mr. Kirti Patel and is currently being managed by his sons- Mr. Nilesh Kirti Patel and Mr. Nitin Kirti Patel. Mr. Nilesh has been part of the group since 1994. All the promoters have experience of more than three decades in the timber trading industry and also look after the overall operations. The Group trades primarily in teak wood procure from Myanmar (Burma). The Group has established relationship with the suppliers in Myanmar (Burma) in giving SPG access to premium quality teak wood. The experience of the directors has helped the group maintain relationships with customers and suppliers. This has helped SPG achieve moderately large scale of operations. This has reflected in the consolidated revenue of Rs. 135.12 crore in FY2020, Rs. 81.57 crore in FY2019 and Rs. 90.88 crore in FY2018. For H1 FY2021 (Provisional) SPG has reported revenue of Rs. 49.91 crore.

Acuite believes the Group is expected to benefit extensive experience of its promoters and established operational track record.

• Moderate financial risk profile

The financial risk profile of the SPG is moderate marked by tangible net worth of Rs. 20.86 crore as on 31 March, 2020 as against Rs. 18.86 crore in the previous year. The gearing declined to 1.41 times as

on 31 March, 2020 as against 0.45 times in the previous year. The total debt of Rs. 29.34 crore as on March 31, 2020 against Rs. 8.57 crore in the previous year. The debt as on March 31, 2020 consists of Rs. 26.71 crore of working capital facility and Rs. 2.63 crore of unsecured loan from promoters. Increase in interest costs has led to a decline in Interest coverage ratio. It stood at 1.48 times in FY2020 against 2.95 times in FY2019. DSCR declined to 1.45 times in FY2020 against 2.59 times in FY2019. The Total outside liabilities to Tangible Net worth (TOL/TNW) stood at 1.42 times for FY2020 as against 0.66 times in FY2019. Debt to EBITDA increased to 5.42 times in FY2020 against 4.40 times in FY2019. The Group does not have any term borrowing and has no plans for major debt funded capex.

Acuite expects SPG's financial risk profile to remain stable over the medium term despite marginal impact on account of COVID-19 lockdown.

Weaknesses

• Elongation in the working capital cycle

Elongation in SPG's working capital cycle has been observed for period FY2018-20. This is marked by GCA of 129 days in FY2020 against the 126 days in FY2019 and 68 days in FY2018. This is primarily on account of increase in debtor days which stood at 110 days in FY2020, 109 days in FY2019 and 68 days in FY2018. In the past year the Group has increased its merchant trading activities procuring goods from Burma and selling it to clients in the Middle East and Europe. The group has taken longer to collect on its receivable. SPG engages in merchant trading activity. Selling against orders they already have and hence have very low inventory holding. SPG pays its creditors either in advance or against delivery. Hence, creditor period remains at 1 and 18 days for FY2020 and FY2019 respectively. This elongated working capital cycle has made the Group dependent on external borrowings to fund its working capital funding. The working capital utilization remains high at ~80 for period ending December 31, 2020.

Acuite believes SPG's ability to restrict further elongation of working capital cycle will be a key rating sensitivity.

• Risk related with regulatory changes in domestic and foreign countries

The imports of the group are exposed to risk related with different regulatory changes in domestic and foreign countries. The imports of the group are subject to import duty by the government of India. Any increase in the import duty may increase the cost the imports of group. The imports of the group are also exposed to risk related with the changes in regulatory policies of exporting countries (suppliers). The ban in exporting countries could affect the business and financial risk of the group.

• Competitive and fragmented nature of business

The group is engaged in the trading of teak woods from countries Myanmar and the group is selling teak woods to traders located in India and overseas. Further, the industry is marked by the presence of several medium to big size players. This affects the SPG pricing power and affects its profitability. SPG's profitability stood low at 3.90 percent in FY2020 and 2.19 percent in FY2019. SPG has reported operating margin of 0.26 percent in H1 FY2021, further declining on account of COVID lockdown impact.

Liquidity Position: Stretched

SPG has generated cash accruals of Rs. 1.07 – 1.66 crore during the last three years through 2018-20, against no maturing debt obligations. The cash accruals of SPG are estimated to remain negative for FY2021 due to adverse impact of COVID on operating performance. Over the medium term the Group's cash accruals are expected to be around Rs. 1.60 to 1.80 crore during 2022-23 against no repayment obligations during the same period. However, SPG's working capital cycle is elongated with GCA of 129 days which has increased reliance on working capital borrowings. SPG's bank limit remains utilized at ~80 percent during the last six months period ended December 2020. Acuite expects the liquidity profile for SPG to remain stretched on account of negative impact of COVID 19 and higher reliance on bank borrowings for working capital funding leading to high utilization of bank limits.

Material Covenants

None

Rating Sensitivities

- Ability to restrict further elongation in working capital cycle will be key rating sensitivity.
- Ability to maintain stability in financial risk profile.

Rating Outlook: Stable

Acuite believes that SPG will maintain a 'Stable' outlook over the medium term owing to its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case the group registers healthy improvement in operating risk profile while restricting working capital cycle elongation. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue or profit margins, or further elongation of working capital cycle leading to increased dependency on bank borrowings deteriorating in the group's financial risk profile and liquidity position.

About the Rated Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	135.12	81.57
PAT	Rs. Cr.	1.54	0.93
PAT Margin	(%)	1.14	1.14
Total Debt/Tangible Net Worth	Times	1.41	0.45
PBDIT/Interest	Times	1.48	2.95

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

CARE Ratings vide its press release dated May 8, 2020 has mentioned rating of SPE as 'CARE BB-/Stable/A4' Issuer not cooperating as on 08-May-2020.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-55.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. Cr.)	Ratings/Outlook
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	1.97	ACUITE BB+ /Stable (Assigned)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	31.62	ACUITE A4+ (Assigned)

*LC has a sublimit of cash credit of Rs. 10.00 crore.

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About Acuité Ratings & Research:

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