

Press Release

Chaudhary Timber Industries Private Limited

June 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	0.25	ACUITE A- Stable Assigned	-
Bank Loan Ratings	101.75	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	102.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of **ACUITE A2+** (read as **ACUITE A two plus**) on Rs.50.0 crore of bank facilities of Chaudhary Timber Industries Private Limited (CTIPL). The outlook is '**Stable**'.

Acuite has further assigned rating of ACUITE A2+ (read as ACUITE A two plus) on Rs.52.0 crore of bank facilities of CTIPL.

Rationale for rating

The rating takes into account established track record of operations with experienced promoter, satisfactory financial performance during FY19-21 resulting in improvement in profitability margins and adequate liquidity. The financial risk profile continues to remain at adequate. The above strengths are however, constrained by elongation in gross current asset days during FY19-21, supplier concentration risk and higher reliance on import for raw material.

About the Company

Chaudhary Timbers Industries Private Limited (CTIPL) was incorporated in 2007 and is engaged in processing and trading of pinewood. The company was initially established as family oriented business, as Chaudhary Timber Traders at Nangloi Delhi, by Late Sh. Baldev Raj Nijhawan. The business, when set up was at its nascent stage of operation during which very few timber organizations were being operated.

The company imports pinewood from New Zealand, Germany, Canada and Russia, processes it at various size and shape as per customer's requirement. The same is then distributed through 3000 dealer network across India.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of DDPL to arrive at the rating

Key Rating Drivers

Strengths

Established track record of operations with experienced promoters

The company was incorporated in 2007 and hence has more than decade of existence in the industry. The company was initially set up as family oriented business and is pioneer in timber processing. During 1996, Chaudhary Timber started importing timber from Malaysia, New Zealand and other countries. However, in 2007, the firm was converted into private limited entity, by Smt. Usha, wife of Late Baldev Raj Nijhawan, Mr. Sunil Nijhawan and Mr. Vishal Nijhawan. The long track record of business has enabled in developing established customer and supplier network.

Satisfactory financial performance during FY19-21 and increase in profitability margin

The total operating income of the company increased from Rs.275.56 crore in FY19 to Rs. 286.14 crore in FY20. The TOI remained at Rs. 248.31 crore in FY21, with marginal moderation of ~10% despite COVID induced lockdown and decline in sales realization in FY21, due to overall subdued economic environment. The operating profit of the company also remained between Rs.20.65-Rs.34.34 crore during FY19-21, in line with total operating income. The net profit also increased significantly to Rs.26.42 crore in FY20 as against Rs.15.50 crore in FY19 and remained at Rs.24.12 crore in FY21. On profitability margin front, the operating profit margin increased significantly to 12.0-12.30% in FY20-21 as against 7.49% during FY19. Similarly, the net profit margin also remained at similar level at around 9% during FY20-21, over 5% in FY19.

Comfortable financial risk profile

The capital structure of the company as represented by debt-equity ratio remained below unity for the past three years ending March 31, 2021. The debt equity ratio improved significantly to 0.62 times as on March 31, 2020 as against 1.25 times as on March 31, 2019, backed by accretion of profit to reserves and decline in total debt during FY20 and moderated marginally to 0.82 times as on March 31, 2021, led by increase in outstanding balance of letter of credit. Similarly, the net cash accruals to total debt remained between 0.21- 0.51 times during FY19-21. The total outstanding liability to tangible net worth on an average remained at 1.23 times during FY19-21. The debt-EBITDA moderated to 2.62 times during FY21 vis-à-vis 1.41 times in FY20, led by increase in debt coupled with moderation in operating profit. The same remained at 3.06 times during FY19. Further, the interest coverage ratio on an average remained at 18.18 times during FY19-21, with year-on-year improvement.

Weaknesses

Elongation in gross current asset days

The gross current asset days elongated continuously to 186 days in FY21 as against 154 days in FY20 (128 days in FY19). The elongation in FY21 is mainly on account of moderation in total operating income. The creditors days remained at 30 days during FY21 (22 days in FY20). The company usually extends credit period of 90 days, however, the same elongated to 146 days during FY21 due to impact of COVID-19. The debtors' days, however improved in FY22 to 91 days. Further, the company also has wholly owned subsidiary Woodlix Pte Ltd., which sells raw material to small importers of India against International Letter of Credit at a shorter debtor tenure, this will reduce the debtors risk of Indian company to a large extent and overall debtor cycle of Indian company will improve. The company maintains inventory as per the requirement. The raw material inventory is maintained for 60 days and finished goods inventory is maintained for 7 days. The company has a sanctioned cash credit facility of Rs.0.25 crore and the same remains unutilized.

Supplier concentration

The company imports around 70-90% of raw material from top 10 supplier in FY20-21. The major portion of raw material was imported from New Zealand, Singapore, Austria, Germany and Uruguay. The company has business relation with suppliers for 3-12 years

Higher reliance on imports from other countries and risk associated with availability and prices

The COVID-19 resulted impacted wood price and its availability. Further, during COVID-19, there was temporary shortage of logs as much of the supply was diverted to China. The timber industry has been negatively affected through shortages, price fluctuations, closures and other disruptions. Nevertheless, even prior to COVID period, the industry has been witnessing supply shortage in New Zealand from where the company used to import major portion of logs. India imported first ever consignment of pine woods from Uruguay in August 2019, which resulted in breaking of near monopoly of New Zealand origin pine in Indian market making import rates competitive. The New Zealand supply crisis continue to remain in FY22. The supply of wood to meet New Zealand's domestic demand has been under immense pressure since 2019 / 2020 based on rising demand and log prices. Pandemic lock downs, and in particular closed borders to travel, stimulated a historic level of demand for domestic building. Hence, timely availability of raw material amidst environmental concern and shortage would be a critical aspect.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

>Improvement in revenue and profitability margins.

>Any elongation of the working capital cycle leading to deterioration in debt protection metrics and liquidity profile.

Material covenants

None

Liquidity Position: Adequate Adequate

The net cash accruals of the company remained at adequate level at Rs.24.80 crore during FY21. The company does not have any term loan, hence no debt repayment obligation. The current ratio remained above unity at 1.86 times as on March 31, 2021. The net cash accrual is expected to remain between Rs.34-50.0 crores. Further, the company is not planning to avail any additional term loan, hence, there is no expected debt repayment. Acuite believes that net cash accruals of the company are expected to remain at adequate level going ahead.

Outlook: Stable

Acuite believes that the outlook on CTIPL will remain 'Stable' over the medium term on account of its experienced promoter and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or reduction in operating income of the company.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	248.31	286.14
PAT	Rs. Cr.	24.12	26.42
PAT Margin	(%)	9.71	9.23
Total Debt/Tangible Net Worth	Times	0.82	0.62
PBDIT/Interest	Times	22.76	19.27

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A- Stable Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	49.75	ACUITE A2+ Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	52.00	ACUITE A2+ Assigned

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About Acuité Ratings & Research

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