



Press Release
Chaudhary Timber Industries Private Limited
July 13, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed the 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.102.00 crore of bank facilities of Chaudhary Timber Industries Private Limited (CTIPL). The outlook is revised from 'Stable' to 'Negative'.

Rationale for outlook change

The revision in outlook is majorly on account of continuous moderation in profitability margins owing to volatility in raw material prices and foreign currency fluctuations. The revenue from operations of the company witnessed improvement to Rs.~380 crore in FY2023 (Provisional) as against Rs. 347.40 crore in FY2022. The growth in revenues was majorly on account of increase in average price realisations. Albeit, growth in revenues, the operating profit margin of the company witnessed continuous moderation from 12.28 percent in FY2021 to 11.30 percent in FY2022 and to 7.77 percent in FY2023 (Provisional). The deterioration is majorly on account of volatility and increase in raw material prices along with foreign exchange fluctuation losses. Similarly, the Profit After Tax (PAT) margin declined & stood at 6.34 percent in FY 2023 (Provisional) as against 8.82 percent in FY 2022. Furthermore, the operations of the company continues to remain working capital intensive reflected by higher receivable days as on 31 March 2023 (Provisional). However, the rating continues to draw comfort from the experienced management, healthy financial risk profile and strong liquidity profile of the company.

Acuite believes that the company's ability to grow its scale of operations in the volume terms and improve profitability while maintaining a healthy capital structure remains a key rating monitorable.

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 to 4000 dealer network across India.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CTIPL 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.

Financial Risk Profile- Healthy

Company has healthy financial risk profile marked by Healthy net worth and comfortable debt protection metrics. Company's net worth stood at Rs~165.18 Cr as on 31st March 2023(Prov.) as against Rs.~141.10 Cr as on 31st March 2022. Networth improved on account of Profit accretions. Company follows conservative leverage policy. Gearing levels (debt to equity) witnessed moderation by 18 bps yet comfortable, below unity and stood at 0.77 times as on March 31, 2023 as against 0.59 times in FY 2022.

Further, the interest coverage ratio moderated by 545 bps yet stood strong at 9.39 times for FY2023 (Prov.) as against 14.84 times in FY2022. Likewise Debt Service coverage ratio moderated by 398 bps and stood comfortable at 7.34 times for FY2023 (Prov.) as against 11.33 times in FY2022. Total outside liabilities to total net worth (TOL/TNW) stood at 0.90 times as on FY2023 (Prov.) vis-à-vis 0.84 times as on FY2022. However, Debt-EBITA increased to 3.42 times as on 31st March 2023 (Prov.) as against 1.85 times as on 31st March 2022.

Weaknesses

Moderation in Business Risk profile

CTIPL's revenue improved which is apparent from growth in revenue from operations by ~9% in FY2023 (Prov.) to Rs.~380.01 crore as against Rs. 347.40 crore in FY2022. (overall ~53 percent increase in last three years FY 21 to FY 23) The increase in revenue is attributable to increase in prices of timber however volume sale declined in comparison to last year. Company has booked revenue of Rs~88 crore in first 2.5 months of FY 24.

The operating profit margin of the company moderated by 353 bps in FY 23(Prov.). Operating Profit Margin of company stood at 7.77% in FY2023 (Prov.) as against 11.30% in FY2022. Likewise, the net profit margin of the company moderated by 241 bps and stood at 6.34 percent in FY2023 (Prov.) as against 8.82 percent in FY2022. Moderation in profitability margins in FY 23 majorly is on account of increase in RMC cost and Foreign exchange fluctuation Losses.

Working capital operations- Intensive

Company has improved yet intensive working capital requirements as evident from gross current assets (GCA) of 180 days in FY2023 (prov.) as compared to 171 days in FY2022. Intensiveness of the working capital is due to high debtor days. Debtor days stood improved by moderated by 9 days and stood at 180 days in FY2023 (171 days in FY2022). Inventory days stood at 59 days in FY2023 (Prov.) as against 44 days in FY2022. Current ratio of company stood healthy at 2.05 times as on March 31, 2023 (Prov.).

Supplier concentration

The company imported around ~75% of raw material from top 10 supplier in FY22-23. The major portion of raw material was imported from Uruguay, Singapore, Austria and New Zealand, ~97 percent of the total purchase in FY 22-23 are in nature of import. Further ~50 percent of total purchases are from Uruguay.

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

Strong

Company has strong liquidity marked by net cash accruals, Current Ratio, Bank Balances. Company generated cash accruals of Rs. 25.15 crore for FY2023 (Prov.) Nil debt obligations. Current Ratio stood at 2.05 times as on 31 March 2023 (Prov.) as against 2.16 times in the previous year. Cash and Bank Balances of company stood at Rs 0.03 crores. Further the Non fund Based Bank Limit Utilization in 12 months ended April 23 was 83.56 percent leaving additional cushion to meet the contingencies. The liquidity of the company is further expected to improve with group expected to generate cash accruals in the range of Rs. 32 to 35 Cr. will also support the liquidity of the company.

Outlook: Negative

Acuite believes that CTIPL will maintain a 'negative' outlook on account of continuous deterioration in the operating profit margin and decline in volume sales of the company. The rating may be downgraded in case of further moderation in operating profit margin, volume sales, stretch in working capital cycle or deterioration in financial risk profile. The outlook may be revised to 'Stable' in case of substantial improvement in volume driven revenue growth and improvement in profitability boosting the liquidity position of the company.

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	380.01	347.40
PAT	Rs. Cr.	24.08	30.64
PAT Margin	(%)	6.34	8.82
Total Debt/Tangible Net Worth	Times	0.77	0.59
PBDIT/Interest	Times	9.39	14.84

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

CRISIL vide its press release dated 19 May 2022, has mentioned the rating of CTIPL to '[CRISIL]B/Stable/A4' Issuer Not Cooperating as on 19 May 2022.

Brickwork vide its press release dated 16 November 2022, has mentioned the rating of CTIPL to '[BWR] A4' Issuer Not Cooperating as on 16 November 2022.

India Rating vide its press release dated 28 July 2022, has mentioned the rating of CTIPL to '[IND-RA] BB/A4+' Issuer Not Cooperating as on 28 July 2022.

Any other information

None

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>
- Manufacturing Entities: <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jun 2022	Letter of Credit	Short Term	49.75	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	0.25	ACUITE A- Stable (Assigned)
	Letter of Credit	Short Term	52.00	ACUITE A2+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE A- Negative Reaffirmed Stable to Negative
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	101.75	ACUITE A2+ 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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