

Gupta Timbertrader Private Limited

March 02, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	10.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	26.00	CARE A4 (A Four)	Assigned
Total Facilities	36.00 (Rs. Thirty-Six Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gupta Timbertrader Private Limited (GTPL) are primarily constrained by its modest scale of operations, low profitability margins and weak debt coverage indicators. Further, the ratings are also constrained by risk associated with its elongated operating cycle, foreign exchange fluctuation risk and its presence in a highly competition nature of industry.

The ratings, however, draw comfort from experienced management coupled with long track record of operations, location advantage and moderate capital structure.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in scale of operations to around Rs.100.00 crore and above over the medium term on sustained basis.
- Improvement in profitability margins as marked by PBILDT and PAT margin above 6.00% and 2.50% respectively.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 3.50x.
- Continued elongation in the operating cycle of the company beyond 180 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: GTPL's scale of operations stood modest as marked by total operating income of Rs.51.27 crore and gross cash accruals of Rs.0.69 crore respectively, during FY21 (FY refers to the period April 1 to March 31). Nevertheless, the scale remains modest; it limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, GTPL's scale of operations remained declining for the period FY19-FY21 (refers to the period April 1 to March 31). TOI declined in FY21 on account of lockdown in the country in the wake of COVID-19 pandemic. Further, the company has achieved a TOI of ~Rs.70.18 crore during 10MFY22 (refers to the period April 1 to January 31; based on provisional results).

Low profitability margins and weak debt coverage indicators: The profitability margins of the company have been historically on the lower side owing to low value addition nature and highly competitive nature of industry. Further, high interest cost restricts the net profitability of the company. PBILDT margin of the company improved marginally and stood at 4.82% in FY21 as against 3.23% in FY20 since the company started direct imports of KD pine wood which fetches comparatively better margins as compared to previous year. Similarly, PAT margin also improved and stood at 0.64% in FY21 as against 0.42% in FY20.

Owing to low profitability margins, the debt coverage indicators of the company stood weak as marked by interest coverage ratio and total debt to GCA which stood at 1.50x and 39.37x respectively in FY21 as against 1.55x and 49.59x respectively in FY20. The improvement in total debt to gross cash accruals was mainly on account of higher PBILDT consequently leading into higher gross cash accruals.

Elongated operating cycle: The operations of the company remain working capital intensive in nature as marked by elongated operating cycle of 119 days for FY21 on account of elongated debtors' period. The company is required to maintain adequate inventory of traded goods of around 1-2 months on account of high lead time for procurement and to cater the immediate demands of its customers. Further, being in a highly competitive business, the company has to give extended credit period of around 4-5 months. However, the same elongated in FY21 owing to delay in realization from debtors owing to lockdown in the country as an impact of COVID-19. The company had high payable period due to high proportion of LC-backed creditors since the company purchases mainly through imports backed by LC (normally up to 180 days). The high working capital requirements were met largely through bank borrowings which resulted in almost full utilization of its non-fund-based limits during past 12 month's period ending November, 2021. Further, the fund-based working capital limits remained around 85% utilized for the past 12 months period ending December, 2021.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

Foreign exchange fluctuation risk: GTPL in FY21 meets ~75% of its procurement through imports from countries such as New Zealand, Germany, Australia, Ukraine, Austria, Uruguay, etc. However, the traded goods are completely sold in the domestic market. With initial cash outlay for procurement in foreign currency and inflows in domestic currency, the company is exposed to the fluctuation in foreign exchange rates. However, the firm has a policy to hedge 30%-40% of its foreign currency payable which still exposes the firm to any sharp depreciation in the value of rupee against foreign currency for the uncovered portion. The risk is more evident now that the rupee has registered considerable volatility and could leave the firm carrying costly inventory in case of sudden appreciation.

Presence in a highly competitive nature of industry: Timber trading business is characterized by high volumes and low margins. The timber trading sector is highly competitive, comprising a large number of players in the organized segment as a result of low entry barriers. This results in intense competition which has a cascading effect on the player's margins.

Key Rating Strengths

Experienced management coupled with long track record of operations: GTPL is a family run business. Mr. Anil Kumar Gupta, Mr. Arun Gupta, Mr. Atul Gupta and Mr. Ashish Gupta are the directors of the company and they collectively look after the overall operations of the company. Mr. Anil Kumar Gupta is graduate and has accumulated vast experience of more than two decades in trading and processing industry through his association with this entity. He is ably supported by other directors of the company namely; Mr. Arun Gupta, Mr. Atul Gupta and Mr. Ashish Gupta who holds experience of more than one decade in trading and processing industry through their association with the entity. The company is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

Location advantage: The company has warehouse in Kutch, Gujarat to supply the plywood, boards to Northern India. Proximity of the company's warehouse to the port of Kandla reduces the logistics issues associated with wood, which is a bulky commodity and also offers the advantage of lower freight costs.

Moderate capital structure: The capital structure of the company improved and stood moderate as marked by overall gearing (Including Acceptances / Creditors on LC) ratio which stood at 1.77x as on March 31, 2021 as against 2.78x as on March 31, 2020 mainly on account of infusion of funds by the directors in the form of share capital to the tune of Rs.1.69 crore and securities premium of Rs.0.34 crore. Further, the unsecured loans to the tune of Rs.4.64 crore in FY21 is treated as quasi equity as the same is subordinated to debt as per sanction letter.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations as evident from gross cash accruals to the extent of Rs.0.69 crore during FY21 and is expected to generate envisaged GCA of Rs.0.78 crore for FY22 against repayment obligations of Rs.0.42 crore in same year. Further, the non-fund-based working capital limits are almost fully utilized while fund-based working capital limits are 85% utilized for the past 12 month's period ending December, 2021. The firm has low cash & bank balances which stood at Rs.0.12 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the Company

Delhi based Gupta Timbertrader Private Limited (GTPL) was established in 1976 as a proprietorship firm by Mr. Rajender Prasad Gupta. Later in November, 2010, it gets converted into private limited company. The company is currently managed by Mr. Anil Kumar Gupta, Mr. Arun Gupta, Mr. Atul Gupta and Mr. Ashish Gupta. The company is engaged in the trading and processing of timber wood logs. The procurement of timber logs is mainly in the form of imports (75% in FY21) from New Zealand, Germany, Australia, Ukraine, Austria, Uruguay, etc and rest are procured from manufacturers based in Gujarat and Haryana. The processing facility of the company is located at Kutch, Gujarat. The company sells its products to plywood manufacturing companies and wholesalers based in PAN India.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10MFY22*
Total operating income	66.65	51.27	70.18
PBILDT	2.15	2.47	NA
PAT	0.28	0.33	NA
Overall gearing (times)	2.78	1.77	NA
Interest coverage (times)	1.55	1.50	NA

A: Audited; NA: Not Available

*refers to the period from April 1, 2021 to January 31, 2022.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this firm: Annexure- 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	26.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable				
2	Non-fund-based - ST-Letter of credit	ST	26.00	CARE A4				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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