

## Samrat Plywood Limited

April 12, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	35.08	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	7.20	CARE A4 (A Four)	Assigned
<b>Total Facilities</b>	<b>42.28</b> <b>(Rs. Forty-Two Crore and Twenty-Eight Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

While arriving at the rating of Samrat Plywood Limited (SPL), CARE has taken a combined view of SLPL and Samrat Plywood Limited [SPL, rated, 'CARE B+; Stable/CARE A4'] as the two entities (together referred to as 'Group'), are engaged in a similar line of business, have operational linkages, common promoter family and common management personnel.

The ratings assigned to the bank facilities of Samrat Plywood Limited (SPL) are constrained by the small scale of operations of the group, fragmented nature of the industry and susceptibility of profitability margins to fluctuations in the raw material prices. The ratings are further constrained by linkages of fortunes to the demand from the cyclical real estate industry.

The ratings however, derive strength from the experienced promoters, long track record of operations and established business relationships with the customers.

#### Rating Sensitivities

##### *Positive Factors*

- Sustained and significant improvement in PBILDT margins to over 12% going forward.
- Sustained and substantial increase in the scale of operations of the group to more than Rs.100 cr.

##### *Negative Factors*

- Further elongation in the operating cycle of the group with increased reliance on working capital borrowings.
- Any significant deterioration in the overall solvency position with the overall gearing ratio deteriorating to above 3.5x owing to debt funded capex, increased working capital reliance, etc.

### Detailed description of the key rating drivers

#### **Key Rating Weaknesses**

**Small scale of operations:** The scale of operations of the group remained small at Rs.84.13 cr. in FY20. The operating income of the group was impacted in FY20 owing to the floods at the Nalagarh factory of SPL, which led to shut down of operations at the factory for ~3 months (August 2019 to October 2019). Further, the sales were also affected by the lower demand in FY20, especially in the last quarter of FY20. The PBILDT margins of the group, however, improved from 8.35% in FY19 to 10.51% in FY20 mainly on account of lower raw material prices and higher focus of the management on selling better quality products which derive higher realizations and better margins.

The group has achieved a total operating income of Rs.43.28 cr. in 9MFY21

**Susceptibility to fluctuation in raw material prices:** The primary raw material for the group are wood, paper and chemicals like Formaldehyde, Phenol, Melamine, etc. The margins of the group remain exposed to price volatility risk as wood and paper prices have remained fluctuating in the past.

**Fragmented nature of the industry:** The industry is highly fragmented and unorganized in nature thereby putting pressure on the profitability margins of the companies engaged in the industry. Furthermore, due to low entry barriers, the competition gets intensified, which put pressure on profitability of the existing as well as new players. Accordingly, the margins of the group may fluctuate, depending upon price movement and level of competition.

**Fortunes linked to demand from the cyclical real estate industry:** The group supplies various kinds of laminates, plywoods, boards and decorative woods, the demand of which largely comes from the real estate sector which is cyclical in nature and its fortunes depend upon the overall economic conditions in the country. The industry is also sensitive to the interest rate in the economy and any adverse impact on real estate sector is likely to affect the growth rate of wood industry.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### Key Rating Strengths

**Experienced promoters and long track record of operations:** The group has been engaged in the manufacturing of products like laminates, plywoods, block boards, flush doors, etc. for more than three decades. The group is currently being managed by four directors- Mr Rajiv Singhal, Mr Puneet Singhal (Brother of Mr Rajiv Singhal), Mr Raghav Singhal (Son of Mr Rajiv Singhal) and Mr Sahil Singhal (Cousin of Mr Rajiv Singhal). Mr. Rajiv Singhal and Mr Puneet Singhal have an overall experience of more than 2 decades each, in the industry. The other directors - Mr Raghav Singhal and Mr Sahil Singhal have an experience of 4 years each, in the industry.

**Established business relationships with the customers and suppliers and established presence of the group:** The group has been operating in the industry for more than three decades now, leading to established business relationships with the customers and the suppliers with an established distributor network of around 200 distributors across the country. Most of the major customers of the group have been dealing with the group since more than a decade. The long-standing relationships with customers have led to repeat orders for the group.

**Liquidity: Stretched:** The working capital limits remained almost fully utilized throughout the 12-month period ended December-2020. The average operating cycle of the group stood elongated at ~253 days, as on March 31, 2020. The current ratio and the quick ratio of the group stood moderate at 1.46x and 0.97x, respectively as on March 31, 2020 (PY: 1.41x and 0.99x, respectively). The group had free cash and bank balance of Rs.2.14 cr. as on March 31, 2020. The group has availed moratorium from the bank for the period March, 2020 to August, 2020. The group has total debt repayment obligations of Rs.0.52 Cr. and Rs.4.15 cr.in FY21 and FY22, respectively, proposed to be met through internal accruals and cash flow from operations. The group does not have any capex plans in the near future.

**Analytical approach:** Combined. The financial and business risk profiles of Samrat Laminates Private Limited and Samrat Plywood Limited have been combined since both the entities are engaged in a similar line of business, have operational linkages, common promoter family and common management personnel.

### Applicable Criteria

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Manufacturing Companies](#)

[Criteria for short term instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

### About the Company (SPL)

SPL was incorporated in 1987 by Mr. Rajiv Singhal (managing director). At present, the company has three directors; Mr. Rajiv Singhal, Mr. Puneet Singhal (Brother of Mr. Rajiv Singhal) and Mr. Raghav Singhal (Son of Mr. Rajiv Singhal). The overall day-to-day operations of the company are being looked after by Mr. Rajiv Singhal (Managing Director) and his son, Mr. Raghav Singhal. SPL is engaged in the manufacturing of laminates, compact laminates and cladding at its two manufacturing facilities located in Derabassi, Punjab and Nalagarh, Himachal Pradesh. The company sells its products under the brand name "Samrat" across the country. The product profile of the company constitutes different plywoods viz. water proof plywoods, commercial plywood, high pressure plywoods, and block boards, flush doors, commercial boards, decorative veneers, etc and Decorative Laminates. The products of the company mainly find application in the furniture and real estate industry.

Brief Financials (Rs. crore); SLPL	FY19(A)	FY20(A)
Total operating income	83.80	75.01
PBILDT	7.41	7.48
PAT	0.53	0.14
Overall gearing (times)	4.89	1.21
Interest coverage (times)	1.50	1.36

A: Audited

**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 company:** Annexure 4

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	28.50	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	-	6.58	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.20	CARE A4
Non-fund-based - ST-ILC/FLC	-	-	-	7.00	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	28.50	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	6.58	CARE B+; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.20	CARE A4	-	-	-	-
4.	Non-fund-based - ST-ILC/FLC	ST	7.00	CARE A4	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated facilities:** Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-ILC/FLC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name – Mr. Sudeep Sanwal

Group Head Contact no.: +91-0172-4904025

Group Head Email ID- [sudeep.sanwal@careratings.com](mailto:sudeep.sanwal@careratings.com)

### Relationship Contact

Name: Mr. Anand Jha

Contact no. : +91-0172-4904000/1

Email ID: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.