

Kushal Timber Private Limited

February 15, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short Term Bank Facilities	33.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	39.00 (Rs. Thirty-Nine Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The credit profile of Kushal Timber Private Limited (KTPL) is primarily constrained on account of modest scale of operations, Weak profitability margins, Leveraged capital structure and weak debt coverage indicators. Further, the ratings are also constrained by risk associated with working capital-intensive nature of operations, foreign exchange fluctuation risk and its presence in a highly competition nature of industry. The credit profile derives comfort from experienced management coupled with long track record of operations, and location advantage.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action

- Improvement in scale of operations to around Rs.130.00 crore and above on sustained basis.
- Improvement in profitability margins as marked by PBILD and PAT margin above 4.00% and 1.50% respectively on sustained basis.

Negative Factors- Factors that could lead to negative rating action

- Deterioration in the capital structure as marked by overall gearing ratio of above 4.00x on sustained basis.
- Elongation in creditor period to 160 days.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations: KTPL's scale of operations stood moderate as marked by total operating income of Rs. 83.71 crore and gross cash accruals of Rs.0.83 crore respectively, during FY21 (FY refers to the period April 1 to March 31). Moderate scale of operations limits the company's financial flexibility in times of stress and deprives it of scale benefits. Moreover, KTPL's scale of operations are improving during the period FY17-FY21 (refers to the period April 1 to March 31) reflecting a CAGR of 6.77%. Further, the company has achieved a TOI of Rs.72 crore during 10MFY22 (refers to the period from April 1, 2021 to January 31, 2022) and is expecting to achieve total operating income of 90-100 crore by the end of FY22.

Weak profitability margins: The profitability margins of the company have been 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. PBILD margin of the company declined marginally and stood at 2.27% in FY21 as against 2.97% in FY20 Similarly, PAT margin also declined marginally and stood at 0.58% in FY21 as against 0.69% in FY20.

Leveraged capital structure and Weak debt coverage indicators: The capital structure of the company stood leveraged as marked by overall gearing ratio which stood at 3.39x as on March 31, 2021 as against 2.81x as on March 31, 2020 mainly on account high debt levels and moderate net worth as on balance sheet date. 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 1.86x and 43.24x respectively in FY21 as against 2.06x and 28.32x respectively in FY20.

Working Capital Intensive Nature of Operations: The operations of the company remain working capital intensive in nature as marked by elongated debtors and creditors 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 40-50 days. 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 January, 2022. For the past 12 months period ending January, 2022, utilization of fund-based limit remained around 85%-90%.

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

Foreign exchange fluctuation risk: KTPL meets ~90% in FY21 of its procurement through imports from countries such as Australia, Russia, New Zealand and Germany, etc. However, finished 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 company does not have any policy to hedge its foreign currency payable. 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: KTPL is a family run business. It is promoted by its directors Mr. Anant Ram Aggarwal, Mr. Kushal Aggarwal and Mrs. Manju Garg. The promoters collectively look after the overall operations of the company. Mr. Anant Ram Aggarwal is graduate and has accumulated vast experience of more than two decades in trading and processing industry. Mr. Kushal Aggarwal is graduate and holds experience of around half a decade in trading and processing industry. Mrs. Manju Garg is graduate and holds experience of more than half a decade in the same field. 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 factory in Gandhi Dham, Gujarat to process the timber logs. Proximity of the company's factory 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.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. The company has reported gross cash accruals of Rs.0.83 crore during FY21 and is expected to envisaged GCA of Rs.1.05 crore for FY22 against repayment obligations of Rs.0.31 crore. Fund based limits of the company remained almost fully utilised of for the past 12 month's period ending January, 2022. The non-fund-based working capital limits were also fully utilized for the past 12 month's period ending January, 2022. The firm has low cash & bank balances which stood at Rs.0.86 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Policy on default recognition](#)

[Policy in respect of Non-cooperation by issuer](#)

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

[Financial Ratios – Non financial Sector](#)

[Manufacturing Companies](#)

[Wholesale Trading](#)

About the Company

Delhi based Kushal Timber Private Limited (KTPL) was incorporated in 2003. The company is engaged into import, processing and trading of Wooden Timber Logs. The company imports ~90% of its raw material. For the rest ~10%, local purchases are done. Import is done mainly from Australia, Russia, New Zealand and Germany. Processing facilities (factory) of the company is situated in Gandhi Dham, Gujarat (India).

The company does trade of wooden logs and lumbers primarily in Jammu and Kashmir region where the wood is used for flooring and construction purposes of homes, hotels etc. KTPL is promoted by its directors Mr. Anant Ram Aggarwal, Mr. Kushal Aggarwal and Mrs. Manju Garg. All the directors are engaged in the same field since inception.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10MFY22*
Total operating income	78.70	83.71	72.00
PBILDT	2.34	1.90	NA
PAT	0.54	0.48	0.60
Overall gearing (times)	2.81	3.39	NA
Interest coverage (times)	2.06	1.86	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: Brickwork has conducted the review and has downgraded Kushal Timber Private Limited as "Not Cooperating" vide its press release dated April 16, 2021.

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	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		-	-	-	6.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit		-	-	-	33.00	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	6.00	CARE BB+; Stable				
2	Non-fund-based - ST-Letter of credit	ST	33.00	CARE A4+				

* Long Term / Short Term

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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