Saurabh International

October 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00	CARE BB; Stable	Upgraded from CARE BB-; Stable
Long Term / Short Term Bank Facilities	20.00 (Enhanced from 1.00)	CARE BB; Stable / CARE A4	LT rating upgraded from CARE BB-; Stable and ST rating reaffirmed
Short Term Bank Facilities	20.00 (Reduced from 34.00)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the ratings assigned to the bank facilities of Saurabh International (SI) factors in the growing scale of operations coupled with improvement in profitability margins in FY24 (refers to April 01 to March 31) and resultant improvement in debt coverage indicators and capital structure of the firm. The ratings continue to derive comfort from experienced partners coupled with long track record of operations and location advantage. However, the ratings continue to remain constrained due to working capital-intensive nature of operations marked by elongated gross current asset days. Further, the ratings are also constrained by risk associated with foreign exchange fluctuation risk, constitution of the entity being a partnership firm and its presence in a highly competition nature of industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in scale of operations as marked by total operating income of above ₹120.00 crore on sustained basis.
- Improvement in the capital structure of the firm as marked by overall gearing ratio of below 1.50x.

Negative factors

- Decline in profitability margins as marked by PBILDT margin of below 2.00% on a sustained basis
- Elongation in the collection period of the firm beyond 150 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the firm will continue to benefit from the extensive experience of the partners in the industry.

Detailed description of key rating drivers:

Key strengths

Improvement in operational performance: The firm's scale of operations remains modest but has grown with a year-on-year increase of approximately 10% in total operating income (TOI), reaching ₹83.17 crore in FY24. Despite this growth, the modest scale limits the firm's financial flexibility during periods of stress and prevents it from benefiting from economies of scale. However, this risk is somewhat mitigated by the firm's consistent growth trend, reflected by compounded annual growth rate (CAGR) of around 10.70% for the past five years. The rise in TOI is due to increased demand, better price deals, and the addition of new clients. However, the firm's profitability margins remained low, with PBILDT (Profit Before Interest, Lease, Depreciation, and Tax) and PAT (Profit After Tax) margins of 5.25% and 2.70% respectively in FY24 (compared to 3.53% and 1.20% in the previous year). The low margins are attributed to the trading nature of the business; however, there was an improvement in FY24 due to better price deals and introduction on value added products. Furthermore, the firm has booked sales of ₹34.29 crores for 5MFY25 (refers to April 01 to August 31) and is anticipating the profitability margins to remain in similar lines for FY25.

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

Improvement in capital structure and debt coverage indicators: The capital structure of the firm improved during FY24 as marked by the overall gearing ratio which stood 2.16x as on March 31, 2024. The capital structure stood leveraged owing to high dependence on external borrowings (acceptances) to meet working capital requirements and expand operations. The unsecured loan to the tune of ₹5.15 crores in FY24 are classified as quasi equity as the same is subordinated to debt as per sanction letter. Furthermore, the debt coverage indicators as characterized by interest coverage improved to 2.27x during FY24 (PY: 1.73x) primarily on account of improved PBILDT.

Location Advantage: The firm operates a processing facility in Kutch, Gujarat, conveniently located near the port of Kandla. This port boasts one of Asia's largest stockyards for imported timber, making it a central hub for timber and wood processing units. This strategic location minimizes the logistical challenges associated with transporting bulky wood, while also providing easy access to raw materials, and reducing both freight and labor costs.

Experienced partners coupled with long track record of operations: Saurabh International (SI) is a family-run business currently managed by Ashish Aggarwal and Saurabh Aggarwal. Ashish Aggarwal oversees the financial and marketing functions, while Saurabh Aggarwal handles the day-to-day operations. Ashish Aggarwal, a graduate, has over a decade of experience in the timber business through his association with the firm. He is supported by his brother, Saurabh Aggarwal, who holds an MBA and has over a decade of experience in the timber industry. SI has been in operation for more than ten years and has established strong relationships with both customers and suppliers.

Key weaknesses

Working capital intensive nature of operations: The operations of the firm remain working capital intensive in nature as marked by gross current asset days of 165 days for FY24 on account of high realisation period. The firm is required to maintain adequate inventory of traded goods on account of high lead time for procurement and to cater the immediate demands of its customers which resulted in an average inventory holding period of around 26 days for FY24. Being in highly competitive nature of industry, the firm has to offer liberal credit period of around 3-4 months to its customers resulting average collection period to 138 days for FY24. However, the firm had high payable period due to high proportion of LC-backed creditors since the firm purchases mainly through imports backed by LC (normally up to 180 days) resulting average creditor period to 132 days for FY24.

Foreign exchange fluctuation risk: SI sources approximately 98% of its procurement through imports from countries like New Zealand, Australia, Ghana, and Argentina in FY24. However, all traded goods are sold domestically. Since the initial procurement is made in foreign currency and a significant portion of sales is realized in domestic currency, the firm is vulnerable to fluctuations in foreign exchange rates, which it does not hedge. Consequently, SI is exposed to the risk of rupee value fluctuations against foreign currencies, potentially impacting its cash flow and profit margins. This risk is heightened by the recent volatility of the rupee, which could result in the company holding expensive inventory if the rupee appreciates suddenly. Additionally, any changes in government policies, both domestic and international, could affect the firm's revenues. Earnings are also susceptible to stringent regulatory policies, including tariff barriers (custom duties), non-tariff barriers (import quality restrictions), anti-dumping duties, international freight rates, and port charges.

Constitution of the entity being a partnership firm: SI's constitution being a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and the firm being dissolved upon the death/retirement/insolvency of partner. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders.

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.

Liquidity: Adequate

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The firm is projecting GCA of ₹5.68 crores during FY25 against repayment obligations of ₹0.29 crore. Further, the average utilization of non-fund-based limits remains ~70-80% for the past twelve months period ending August 2024. However, the free cash and liquid investments remains low at ₹0.58 crores as on March 31, 2024.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Wholesale Trading

About the firm and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Forest Materials	Paper, Forest & Jute Products	Forest Products

Saurabh International (SI) was established in April 2008 as a partnership firm. The current partners of the firm are Saurabh Aggarwal, Ashish Aggarwal, Shweta Aggarwal and Pooja Aggarwal sharing profit & losses in the ratio of 40%, 40%, 10% and 10% respectively. The firm is engaged in the processing and trading of timber wood logs. The procurement of timber logs is mainly in the form of imports such as New Zealand, Australia, Ghana, Argentina etc. SI has their own sawmill located at Kutch, Gujrat and specialize in varied sizes /specification of woods as per customers' requirements. Their dealers' networks spread over all over India, and they are supplying the high-quality cut sizes of timber on order. SI have two branches & head office at Delhi.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY24 (UA)
Total operating income	75.47	83.17	34.29
PBILDT	2.66	4.36	NA
PAT	0.91	2.25	NA
Overall gearing (times)	2.12	2.16	NA
Interest coverage (times)	1.73	2.27	NA

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork and CRISIL has continued the ratings assigned to the bank facilities of SI into 'Issuer not-cooperating' category vide press release dated August 30, 2024, and May 31, 2024, respectively on account of non-availability of requisite information from the company.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE BB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	20.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	-	20.00	CARE A4

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	5.00	CARE BB; Stable	-	1)CARE BB-; Stable (02-Jan-24)	-	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST	20.00	CARE BB; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (02-Jan-24)	-	-
3	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A4	-	1)CARE A4 (02-Jan-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Puneet Kansal Director **CARE Ratings Limited** Phone: 120-4452000 E-mail: puneet.kansal@careedge.in Rajan Sukhija Assistant Director **CARE Ratings Limited** Phone: 91-120-4452000 E-mail: Rajan.Sukhija@careedge.in Kritika Goyal Analyst **CARE Ratings Limited** E-mail: kritika.goyal@careedge.in

About us:
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