

## Agarwalla Teak International Private Limited (Revised)

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	24.00 (Enhanced from 23.00)	CARE BB; Stable	Reaffirmed
Short Term Bank Facilities	63.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Agarwalla Teak International Private Limited continue to remain constrained due to leveraged capital structure of the company coupled with weak coverage indicators. The ratings also factor in elongated working capital cycle and low profitability margins of the company owing to limited value addition. The ratings are further constrained by highly competitive and fragmented nature of the industry, foreign exchange fluctuation risks and ongoing capital expenditure project leading to increase in gearing levels. However, ratings derive strength from experienced promoters and established track record of operations along with location advantage of processing facility in Gujarat.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in scale up of operations above Rs. 200 crores with PBILDT margins improving to above ~5% on sustained basis.
- Sustained improvement in capital structure with overall gearing below 1.75x while efficiently managing its working capital requirement.

#### Negative factors

- Significant decline in scale of operations below Rs. 100 crores with PBILDT margins falling below ~3.00% on sustained basis.
- Sustained deterioration in the solvency position with an overall gearing ratio of above 2.5x owing to increased working capital dependence

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its moderate operational performance in the medium term supported by extensive experience of the promoters in the industry.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Leveraged capital structure and weak coverage indicators

The capital structure of the company stood leveraged as marked by overall gearing ratio which stood 2.21x as on March 31, 2024 as against 2.75x as on March 31, 2023. The leveraged capital structure is primarily due to high dependence on external borrowings to meet working capital requirements. Furthermore, the debt coverage indicators as characterized by interest coverage moderated to 1.64x in FY24 as compared to 1.70x in FY23 primarily on account of higher interest cost.

##### Elongated working capital cycle

The operations of the company are working capital intensive in nature as marked by gross current asset days of 215 days for FY24 on account of high realisation period. The average receivable collection days and average inventory period days stood at 127 days and 75 days in FY24. The company is required to maintain adequate inventory of traded goods on account of high lead time for procurement and to cater the immediate demands and being in highly competitive nature of industry, has to offer liberal credit period leading to elongated operating cycle of 113 days. Furthermore, the debtors more than 6 months remained high at around Rs. 6.34 crores which are contributed to elongated collection period. Any increase in debtors more than 6 months resulting in stretched liquidity will remain a key monitorable.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

### Lower profitability margins

The profitability margins of the company have been historically on the lower side owing to low value addition nature of product and highly competitive nature of industry. However, the PBILDT margin of the company improved marginally and stood at 4.86% in FY24 as against 4.56% in FY23 owing to proportionate decline in overhead expenses. Further, PAT margin stood in line with previous year at 1.36% in FY24.

### Highly competitive and fragmented nature of the industry

The company operates in a highly fragmented industry with low entry barriers which leads to presence of numerous players operating with small operations and proximity to the customers. The high level of competition and commoditized nature of timber industry restricts the pricing power of industry players which has a bearing on their profitability profile.

### Foreign exchange fluctuation risks

The company is exposed to foreign exchange fluctuation risk as the companies imports timber and sell domestically. The company imports from various countries making it vulnerable to the foreign exchange risks due to the fluctuations in the currency. Due to the lower profitability margin and high cost of hedging, the company doesn't engage in regular hedging of its forex exposure and engage in infrequent hedging of the exposure leading to foreign exchange fluctuation risk.

### Ongoing capital expenditure project leading to increase in gearing levels

The company is undertaking capital expenditure project for the construction of their building and new machinery for expansion in pine wood. Currently, the company has total capacity of 5670 CBM per month which will be increased to 7470 CBM per month. The total cost of the project is around Rs. 8.5 crores out of which Rs 6 crores will be funded through term loan and remaining through unsecured loan/internal accruals. As on March 31, 2024, the company has incurred Rs.3.95 crores on the project funded through own sources.

### Key Strengths

#### Experienced promoters and established track record of operations

The promoters of ATIPL have a long-standing experience in timber industry. Mr. Rakesh Goyal and Mr. Navneet Goyal are into timber industry for more than two decades and currently acts as guiding force for the entire operations of the company. The company has a long track record of operations in the sawing and trading of timber industry and therefore enjoys long standing relationships with the customers and suppliers. It has a sawing capacity of 5,670 CBM per month which makes it possible for the company to sell products of various sizes and dimensions to its customers as per their requirements.

#### Location advantage of processing facility in Gujarat

The firm has processing facility in Gandhidham, Gujarat which is situated in close proximity to the port of Kandla which has one of the largest stockyard of imported timber in Asia and hence, has become a hub for timber and wood processing units. This reduces the logistics issues associated with wood, which is a bulky commodity and offers the advantage of easy availability of raw material, lower freight costs and labour costs.

### Liquidity: Stretched

The liquidity position of the company remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. The company has projected gross cash accruals of Rs. 2.92 crores during FY25 against repayment obligations of Rs. 2.82 crores. The fund-based bank limits of the company of Rs. 18 crores were utilised at around 94% during last 12 months ended March 2024. The cash and bank balance stood low at Rs. 0.16 crore for year ending March,2024. The current ratio remained comfortable at 1.29x, however quick ratio stood moderate at 0.84x 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 company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

Agarwalla Teak International Private Limited (ATIPL, erstwhile known as Agarwalla Enterprises) is engaged into wholesale trading of timber, logs and timber products. The company was later on converted into private limited company in 2005. The company deals in Pine wood, Hardwood Timber and Teak Wood. The business of the company is family driven and is being managed by the two directors Rakesh Goyal and Mr. Navneet Goel having combined business experience of more than 2 decades in the line of business.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	153.74	154.46	63.00
PBILDT	7.01	7.51	-
PAT	1.92	2.10	-
Overall gearing (times)	2.75	2.21	-
Interest coverage (times)	1.70	1.64	-

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	18.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	30-9-2032	6.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	63.00	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	Non-fund-based - ST-Letter of credit	ST	63.00	CARE A4	1)CARE A4 (04-Oct-24)	1)CARE A4 (22-Jan-24) 2)CARE A4 (30-Aug-23)	1)CARE A4 (01-Aug-22)	1)CARE A4 (04-Oct-21)
2	Fund-based - LT-Cash Credit	LT	18.00	CARE BB; Stable	1)CARE BB; Stable (04-Oct-24)	1)CARE BB; Stable (22-Jan-24) 2)CARE BB; Stable (30-Aug-23)	1)CARE BB; Stable (01-Aug-22)	1)CARE BB; Stable (04-Oct-21)
3	Fund-based - LT-Term Loan	LT	6.00	CARE BB; Stable	1)CARE BB; Stable (04-Oct-24)	1)CARE BB; Stable (22-Jan-24)	-	-

LT: Long term; ST: 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 - LT-Term Loan	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.

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