

Neo Wood Products LLP

March 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	18.00 (Reduced from 20.00)	CARE BB; Stable	Upgraded from CARE BB-; Stable
Short Term Bank Facilities	61.00 (Enhanced from 47.00)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the long-term rating assigned to the bank facilities of Neo Wood Products LLP (NWPL) factors in growing scale of operations and comfortable operating cycle. The ratings further derive strength from the experienced partners and favourable location of processing facility in Gujarat. However, the ratings are constrained on account of low profitability margins and average financial risk profile marked by moderate capital structure coupled with moderate debt coverage indicators. The ratings, further, remain constrained on account of foreign exchange fluctuation risk, constitution of the entity being a partnership firm and presence in a highly competitive 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 Rs.250.00 crore with profit before interest, lease rental, depreciation and taxation (PBILDT) margins improving to above ~4% on sustained basis.
- Sustained improvement in capital structure with overall gearing below 1.00x while efficiently managing its working capital requirement.

Negative factors

- Decline in profitability margins as marked by PBILDT margin of below 2.00% on a sustained basis.
- Higher reliance on external debt resulting in deterioration of Total outside liabilities/ total net worth (TOL/TNW) above 4.00x on sustained basis.

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 strengths

Growing scale of operations

The firm's scale of operations is on growing trajectory as marked by the total operating income of Rs. 204.54 crore in FY24 (refers to the period from April 01,2023 to March 31,2024) as against Rs. 118.29 crore in FY23 marking a substantial y-o-y growth of approx. 72%, driven by higher intake from existing clients backed by volume growth coupled with addition of new clients. Further, the firm has achieved a total operating income of around Rs. 197.13 crore in 9MFY25 (refers to the period April 01,2024 to December 31,2024) and is expected to achieve a total operating income of around Rs. 250 crores in FY25 backed by the regular orders from clients.

Comfortable operating cycle

Operating cycle of the firm stood at 55 days in FY24 as against 67 days in FY23. The improvement in operating cycle is on account of the decrease in average inventory holding period and average collection days. The firm is required to maintain a sufficient level of inventory to cater to the tailored requirements of its customers. The same results in average inventory holding period of 67

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

days in FY24. The firm extend a credit period of around two months to its customers and usually makes payments within 75-80 days to its suppliers.

Location advantage

NWPL has processing facility in Kutch, 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 enables NWPL to reduce the logistics issues associated with wood, which is a bulky commodity and also offers the advantage of easy availability of raw material, lower freight costs and labour costs.

Experienced partners

NWPL is a family run business. The firm is currently being managed by Pritam Garg and Mamta Aggarwal wherein; both the partners looks after day-to-day operations of the entity. Pritam Garg and Mamta Aggarwal are graduate by qualification and holds an experience of more than two decade in timber business through their association with this entity and other associate entities

Key weaknesses**Low profitability margins**

The profitability margins of the firm have been historically on the lower side owing to low value addition nature of product and highly competitive nature of industry. The PBILDT margin of the firm remained stable at 3.37% in FY24 as against 3.17% in FY23 owing to decline in overhead expenses. Further, PAT margin also improved marginally to 0.65% in FY24 as against 0.55% in FY23 on account of improvement in PBILDT margins. Going forward, the PBILDT margin of the firm is expected to remain above 4.00% supported by firm's focus on value added products having better profitability margins.

Moderate capital structure and debt coverage indicators

The firm's capital structure stood moderate as marked by the overall gearing ratio of 1.29x as on March 31, 2024 vis-à-vis 2.80x as on March 31, 2023. The improvement in overall gearing of the firm is on account of lower utilization of working capital limits and increase in tangible net worth. Furthermore, owing to reduction in debt levels, the debt coverage indicators of the firm stood moderate as marked by the total debt to gross cash accruals and interest coverage ratio of 24.13x and 1.40x respectively in FY24 as against 75.48x and 1.22x respectively in FY23.

Foreign exchange fluctuation risk

NWPL's meets (~90% in FY24) of its procurement in the form of imports from countries such as New Zealand, Australia, Germany, Argentina etc. However, the traded goods are completely sold in the domestic market. With initial outlay for procurement in foreign currency and significant chunk of sales realization in domestic currency, the firm is exposed to the fluctuation in foreign exchange rates which the firm does not hedge. Thus, NWPL's is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals and profitability margins. 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. However, the firm earned Rs. 0.28 crores as foreign exchange gain during FY24 against loss of Rs. 5.94 crore in previous year FY23.

Constitution of the entity being a partnership firm

NWPL'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

The 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 unorganized segment as a result of low entry barriers. The intense competition and commoditized nature of timber industry restricts the pricing power of industry players which has a cascading effect on the player's margins.

Liquidity: Stretched

The liquidity position of the firm remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. The firm has projected gross cash accruals of Rs. 1.84 crores during FY25 against repayment obligations of Rs. 1.16 crores. Its working capital limits were utilised at around 95% during last 12 months ended January 2025. The cash and bank balance stood low at Rs. 1.50 crore for year ending March, 2024. The current ratio and quick ratio remained comfortable at 1.57x and 1.11x respectively 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](#)

[Wholesale Trading](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Plywood Boards/ Laminates

NWPL was established in 2020 as a partnership firm and is run by Pritam Garg and Mamta Aggarwal. The firm is engaged in the processing and trading of timber wood logs. NWPL has its own sawmill with 26 machines having Capacity 400.00 cbm per machine per month. Their dealers' networks spread over all over North India, and they are supplying cut sizes of timber on order. The partners have experience of around two decades with association with 2 group companies RK Lumbers and PK timber Pvt Ltd.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	118.29	204.54	197.13
PBILDT	3.75	6.88	-
PAT	0.65	1.33	-
Overall gearing (times)	2.80	1.29	-
Interest coverage (times)	1.22	1.40	-

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
Non-fund-based - ST-Letter of credit		-	-	-	61.00	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	18.00	CARE BB; Stable	-	1)CARE BB-; Stable (27-Mar-24)	-	-
2	Non-fund-based - ST-Letter of credit	ST	61.00	CARE A4	-	1)CARE A4 (27-Mar-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	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

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About us:

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