

Oswal Lumbers Private Limited

March 17, 2017

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating action |
|----------------------------|--|--|---------------|
| Long-term Bank Facilities | 2 | CARE BB; Stable (Double B; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 20 | CARE A4+ (A Four Plus) | Reaffirmed |
| Total | 22 (Rupees Twenty Two crore only) | | |

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Oswal Lumbers Private Limited (OLPL) continue to remain constrained on account of its fluctuating trend in scale of operations, weak debt coverage indicators and moderate liquidity position during FY16 (refers to the period April 1 to March 31). The rating continues to remain constrained on account of its presence in the highly competitive timber trading business coupled with risk associated with country-specific trade restrictions on timber trade along with susceptibility of its profitability to volatile timber prices and foreign currency exchange rate fluctuation.

The ratings, however, continue to derive strength from experienced promoter group coupled with established track record in the timber business, reasonably diversified clientele and comfortable capital structure.

The ability of OLPL to increase its scale of operations coupled with improvement in profit margins and capital structure and manage its working capital efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

OLPL is a part of the Gujarat-based Champalal group which is engaged in various businesses such as plastic packaging, real estate, salt, agro commodities, castor oil, edible oil, timber, storage tanks and textiles. OLPL is founded by Mr Shantilal Parekh, son of Mr Champalal Parekh, who was the founder of the Champalal group. Mr Shantilal Parekh holds a bachelor's degree and has more than 35 years of experience.

Long track record of operations with diversified clientele

OLPL imports various types of timber from different countries like Malaysia, Burma, Ghana, New Zealand, etc, and sells it domestically to various timber traders, saw mill owners and agents. Over the years, OLPL has established relationships with the customers and suppliers in the timber trading business.

Comfortable capital structure

The capital structure of the company improved and remained comfortable marked by overall gearing of 0.92 times as on March 31, 2016, as compared with 1.46 times as on March 31, 2015, on account of nil working capital borrowings as on balance sheet date. Debt equity ratio of the company as on March 31, 2016, remained comfortable at 0.02 times as compared with 0.03 times as on March 31, 2015. Total debt of the company as on March 31, 2016, stood at Rs.9.40 crore which includes other long-term loan of Rs.0.19 crore and LC backed acceptances stood at Rs.9.21 crore as on March 31, 2016. During FY16, promoters of the company infused unsecured loan of Rs.2.15 crore which is treated as quasi equity as per sanction letter terms.

Tangible net worth of the company as on March 31, 2016, increased to Rs.10.21 crore as against Rs.7.94 crore as on March 31, 2015.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Key Rating Weaknesses***Fluctuating trend in scale of operations***

The total operating income of the company remained fluctuating marked by total operating income of the company during FY16 declined by 25.82% to Rs.25.42 crore as compared with Rs.34.27 crore for FY15 on account of non-availability of imported teak wood from Burma. Hence, the company started import of teak wood from Ghana (Africa) and Sudan (Africa).

The profitability margins of the company remained thin marked by PBILDT margin of 2.88% as compared with 2.86% for FY15. APAT margin of the company also improved marginally by 12 bps to 0.47% as compared with 0.35% for FY15. Profit margin remained thin owing to limited value addition in trading of timber log business.

Gross cash accruals of the company during FY16 declined to Rs.0.24 crore as compared with Rs.0.29 crore for FY15.

Weak debt coverage indicators

The debt coverage indicators of the company remained weak marked by total debt to GCA of 39.79 years for FY16 as compared with TDGCA of 40.72 years for FY15. Interest coverage of the company for FY16 remained weak at 1.70 times as against 1.69 times for FY15.

Moderate liquidity position

The liquidity position of the company improved and remained moderate marked by current ratio of 1.67 times as on March 31, 2016, as against 1.34 times as on March 31, 2015. Quick ratio of the company as on March 31, 2016, was 1.33 times as against 1.18 times as on March 31, 2015. Operating cycle of the company improved to 54 days for FY16 as compared with 62 days for FY15. The company receives payments from customers within 120-135 days while it has to make payment within 90 days to suppliers. There is almost Nil utilization of working capital borrowings during last 12 months ended on February 28, 2017.

Risk of country specific trade restrictions

High dependence on imports from Malaysia and Burma results in exposure to regulatory risk related to change in government regulations related to exports from Malaysia and Burma. Additionally, any change in trade policies relating to environmental issues concerning deforestation can also adversely affect timber importers.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's Rating Methodology for manufacturing companies](#)

[Financial Ratios - Non Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the company

Incorporated in 1988, OLPL is engaged in the timber log trading business. It imports teakwood/hardwood from Malaysia, Myanmar and African countries and sells it to traders, retailers and saw mills in India. The company operates from Gandhidham of Kutch District (Gujarat) near the Kandla port. OLPL has started processing of timber logs for outside company (on job work basis) from April 1, 2014.

OLPL has registered a total operating income (TOI) of Rs.25.42 crore and net profit of Rs.0.12 crore during FY16 as against TOI of Rs.34.27 crore and PAT of Rs.0.12 crore during FY15. As per provisional upto February 21, 2017, the company has clocked a turnover of Rs.30.99 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

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 | - | - | - | 2.00 | CARE BB; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | 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 (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 | Date(s) & Rating(s) assigned in 2013-2014 |
| 1. | Fund-based - LT-Cash Credit | LT | 2.00 | CARE BB; Stable | 1)CARE BB (11-Apr-16) | 1)CARE BB (03-Apr-15) | - | 1)CARE BB (31-Mar-14) |
| 2. | Non-fund-based - ST-BG/LC | ST | 20.00 | CARE A4+ | 1)CARE A4+ (11-Apr-16) | 1)CARE A4+ (03-Apr-15) | - | 1)CARE A4+ (31-Mar-14) |

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