

## Vee Aar Woodchem Private Limited

February 04,2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	3.775	CARE B+; Stable (Single B Plus; Outlook : Stable)	Reaffirmed
Short term Bank Facilities	3.225	CARE A4	Reaffirmed
<b>Total</b>	<b>7.00</b> <b>(Rupees Seven crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Vee Aar Woodchem Private Limited continue to remain constrained by its short track record of operation coupled with low net worth base, thin Profitability margins and weak coverage indicators, and elongated working capital cycle.

The ratings, however, continue to take comfort from experienced promoters in trading of wood & wood products, location advantage in terms of easy accessibility to traded products and moderate capital structure.

### Detailed Rationale & Key Rating Drivers

#### Rating Sensitivities

##### *Positive Factors*

- Increase in scale of operations as marked by total operating income of above Rs. 30.00 crore on sustained basis.

##### *Negative Factors*

- Overall gearing deteriorating beyond 1.50 times.

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

##### ***Experienced promoters in trading of wood & wood products***

Mr. Vikas Gupta and Mr. OM Prakash Gupta are directors of VAWL. Mr. Vikas Gupta have more than a decade of experience in the wood and wood product industry through his association with this entity along with "Olia Lumber" where he is also a director, the same is engaged in similar industry. Mr. OM Prakash is associated with the company since its inception i.e. August 20<sup>th</sup> 2015. Both the directors collectively look after the overall operations of the company.

##### ***Location advantage in terms of easy accessibility to traded products***

The branch office of VAWL is located in the timber cluster where the wood is processed in various shapes and sizes at Gandhidham, Gujarat which is very close to the port of Kandla and Mundra . Kandla is a hub for wood based industries, having around 1500 wood based industries, and accounting for 55% of India's timber imports. The company has warehouse in Gandhidham to supply the timber to the PAN India. Proximity of the company's warehouse 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.

##### **Moderate capital structure**

Capital structure of VAWL stood moderate as marked by overall gearing of 0.72x in FY19 as against 0.42x in FY18, the deterioration in capital structure is mainly because of higher utilization of working capital borrowings in FY19 as compared to FY18. Total debt of VAWL consist of Rs.1.14 crore of working capital borrowings and Rs.0.24 crore of unsecured loan from others.

##### **Key Rating Weaknesses**

##### ***Short track record of operation coupled with low net worth base***

The scale of operations remained small marked by total operating income and gross cash accruals of Rs. 16.05 crore and Rs.0.05 crore respectively during FY19 (period refers to April 1 to March 31) as against Rs. 17.09 crore and Rs. 0.05 crore in FY18. Operating income declined in FY19 on the account of lesser quantity of goods sold. The small scale limits the

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

company's financial flexibility in times of stress and deprives it from scale benefits. The operating income of company has declined at a 6.09% for past 3 years ended March 31, 2019.

#### ***Thin Profitability margins and weak coverage indicators***

The profitability margins of the company have remained on the lower side owing to initial years of operations coupled with trading nature of the business and intense market competition given the competitive nature of the industry. The profitability margins stood thin marked by PBILDT and PAT margins at around 2.07% and 0.23% respectively in FY19, as against 0.84% and 0.19% in FY18. Further coverage indicator stood weak as marked by interest coverage and total debt to GCA of 1.23 times and 28.09 times respectively in FY19, as against 1.64 times and 9.07 times in FY18.

#### ***Elongated working capital cycle***

The company is engaged into competitive nature of industry, the company offers an average credit period of around 3-3.5 months resulting into average collection period of 94 days in FY19 as against 130 days in FY18. Also, the company had moderate payable period due to high proportion of LC-backed creditors since the company purchases mostly through imports backed by LC, resulting into average creditors days stood at 108 days in FY19 as against 158 days in FY18. The company maintains an adequate level of inventory to meet the immediate demand of the customer resulting in an average inventory holding 09 days in FY19 as against 06 days in FY18.

#### ***Presence in a highly competitive nature of industry and dependence on the real estate sector***

The major income of VAWL comes from processing of timber logs and markets them to various wholesalers and traders with limited value addition to the product. The business is characterized by high volumes and low margins. The sector is highly competitive, comprising a large number of players in the organized segment as a result of low entry barriers. VAWL warehouse is located in the timber cluster of Gandhidham, Gujarat which has about 1,500 units engaged in the processing of wood and hence stiff competition from large number of players.

#### **Liquidity: Adequate**

The current ratio of 1.43x and quick ratio of 1.36x as on March 31, 2019, so supported by above unity current ratio. The average utilization of the working capital limit stood 70% for the last 12 months' ended December 31,2019. The operating cycle days stood negative in FY 19.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

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

[Criteria for short term instruments](#)

[CARE's methodology for whole sale trading companies](#)

[Financial ratios – Non-Financial Sector](#)

#### **About the Company**

Delhi based Vee Aar Woodchem Private Limited (VAWL) was incorporated in August, 2015. The company is being managed by Mr. Vikas Gupta and Mr. OM Prakash Gupta. VAWL is engaged in trading of timber wood from its storage facility located in Gandhidham (Gujarat). The company imports the sawed woods like, Arauco , Kapur and Meranti woods(backed by L/C) from Malaysia which is of fixed size and is used in real estate and furniture business ,additionally it also import timber log from Malaysia which is cur according to customer's need at Mundara Port and sold to wholesalers located across Haryana, Maharashtra, Delhi and Gujarat.

*Non BFSI*

Brief Financials (Rs. crore)	31-03-2017	31-03-2018	31-03-2019
	A	A	A
Total operating income	14.25	17.09	16.05
PBILDT	0.08	0.14	0.33
PAT	0.06	0.03	0.04
Overall gearing (times)	0.00	2.79	7.01
Interest coverage (times)	56.26	1.64	1.23

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

**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 B+; Stable
Non-fund-based - ST-ILC/FLC	-	-	-	3.00	CARE A4
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.23	CARE A4
Fund-based - LT-Proposed fund based limits	-	-	-	1.78	CARE B+; Stable

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	2.00	CARE B+; Stable	-	1)CARE B+; Stable (29-Jan-19)	-	-
2.	Non-fund-based - ST-ILC/FLC	ST	3.00	CARE A4	-	1)CARE A4 (29-Jan-19)	-	-
3.	Non-fund-based - ST-Credit Exposure Limit	ST	0.23	CARE A4	-	1)CARE A4 (29-Jan-19)	-	-
4.	Fund-based - LT-Proposed fund based limits	LT	1.78	CARE B+; Stable	-	1)CARE B+; Stable (29-Jan-19)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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