

Press Release

Asoke Timber Co

December 26, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	16.00	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities	5.00	IVR A4 (IVR A Four)	Assigned
Total	21.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Asoke Timber Co. (ATC) derives comfort from its experienced proprietor and long track record. However, the rating strengths are partially offset by proprietorship nature of constitution, moderate scale of operation along with low profitability, intense competition, exposure to foreign currency fluctuation and government regulations on industry, working capital intensive nature of operations leading to leveraged capital structure and stressed debt protection metrics.

Key Rating Sensitivities:

Upward Factor

- Steady growth in scale of operations on a sustained basis
- Improvement in profitability with improvement in cash accruals on a sustained basis
- Change in constitution

Downward factor

- Deterioration in the capital structure with overall gearing over 2.5x
- Any negative government regulation
- Moderation in liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced proprietor and long track record**

The day to day operation of the entity is looking after by Mr. Asoke Choudhury, proprietor, along with a team of experienced personnel. The proprietor has over three decades of

experience in the timber trading business. Furthermore, the entity has started operation from 1975, thus having over four decades of operational track records.

Key Rating Weaknesses

- **Proprietorship nature of constitution**

ATC, being a proprietorship entity, is exposed to inherent risk of proprietor's capital being withdrawn at the time of personal contingency and entity being dissolved upon the death/retirement/insolvency of the proprietor. Furthermore, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

- **Moderate scale of operation along with low profitability**

ATC is relatively a small player in timber and other interior products trading business with total operating income of Rs.70.17 crore and PAT of Rs.0.28 crore, respectively, in FY19. Furthermore, the total capital employed was also modest at Rs.17.26 crore as on March 31, 2019. The small scale restricts the financial flexibility of the entity in times of stress. Also, the profitability of the entity has been low over the years due to trading nature of business marked by low product differentiation and intense competition. EBIDTA margin and PAT margins were 2.22% and 0.40%, respectively, during FY19 (2.01% and 0.41 respectively in FY18)

- **Foreign currency fluctuation and government regulations on industry**

The entity is mainly importing timber from ASEAN countries like Burma, Malaysia, etc. Its import procurements constitute 16% of its total purchases in FY19. All the sales however are concentrated to the domestic market, particularly in West Bengal. As a result of foreign procurements and no proper hedging mechanism, the entity is exposed to foreign exchange fluctuation risk. Revenue is further susceptible to government regulatory policies in relation to import-export duties, custom duties, restriction on volume of imports, freight rates, port charges etc.

- **Intense competition**

The ATC mainly operates in Kolkata, which is a metro city and major industrial and residential hub in West Bengal, thus, there are many players with limited product differentiation. Intense competition restricts the bargaining power of the firms and profitability.

- **Working capital intensive nature of operations**

The operations of the entity are working capital intensive as the entity needs to procure its main trading materials mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain trading material inventory for uninterrupted supply. The entity is largely dependent on bank borrowings to fund its working capital requirements and the limits are highly utilized during the past 12 months ended on November 2019.

- **Leveraged capital structure with stressed debt protection metrics**

The capital structure of the entity remained leveraged as on the past three account closing dates due to its low net worth base and higher dependence on working capital borrowings to fund its working capital requirements. The overall gearing ratio stood high at 2.59x as on March 31, 2019 (2.91x as on March 31, 2018). Further, total indebtedness as reflected by TOL/TNW also remained moderate at 3.70x as on March 31, 2019 (3.13x as on March 31, 2018). Further, debt protection metrics of the entity remained stressed due to its low cash accruals, interest coverage ratio remained thin at 1.12x in FY19 and Total debt to GCA stood high at 37.73 years in FY19.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Stretched

The liquidity position of the entity is expected to remain stretched in near to medium term due to its low cash accruals coupled with working capital-intensive nature of operations and higher reliance on bank borrowings to fund the working capital requirements. However, absence of long-term debt repayment obligation imparts some comfort.

About the Company

Asoke Timber Co. (ATC) has started its operation from 1975 as a proprietorship entity by one Mr Asoke Choudhury of Kolkata. Since inception, the entity is engaged into trading of Timber, veneer, plywood, marble, granites, tiles etc. The works and controlling office are located at Belgharia area in Kolkata. The day to day operations of the entity is looking after by Mr. Asoke Choudhury, proprietor, along with a team of experienced personnel.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	75.56	70.17
EBITDA	1.52	1.56
PAT	0.31	0.28
Total Debt	13.51	12.45
Tangible Net worth	4.64	4.81
EBITDA Margin (%)	2.01	2.22
PAT Margin (%)	0.41	0.40
Overall Gearing Ratio (x)	2.91	2.59

Status of non-cooperation with previous CRA: Issuer not cooperating (INC) from India Ratings as per press release dated November 06, 2019

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	16.00	IVR BB/ Stable	-	-	-
2.	Short Term Non-Fund Based Limits – Letter of Credit	Short Term	5.00	IVR A4	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for

positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Cash Credit	-	-	-	16.00	IVR BB/Stable
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	5.00	IVR A4