



Press Release

Purbanchal Composite Panel (India) Private Limited

June 27, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term – Fund Based – Term Loan	2.23	IVR BBB-/Stable [IVR Triple B Minus with Stable Outlook]	Reaffirmed	Simple
Long Term – Fund Based – Cash Credit	5.00	IVR BBB-/Stable [IVR Triple B Minus with Stable Outlook]	Reaffirmed	Simple
Short Term – Non-Fund Based – Letter of Credit	4.00	IVR A3 [IVR A Three]	Reaffirmed	Simple
Total	11.23 (Rupees Eleven Crore and Twenty-Three Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Purbanchal Laminates Private Limited (PLPL) takes into account improvement in operational and financial performance of Purbanchal Group's {consist of three companies namely Purbanchal Lumbers Private Limited (PLuPL), Purbanchal Laminates Private Limited (PLPL) and Purbanchal Composite Panel India Private Limited (PCPIPL)} in FY22 (Audited) and FY23 (Provisional). Further the rating derives strength from experienced promoters with long track record of the company in timber processing and laminates industry, diversified customer profile & geographic presence, improved scale of operation & healthy profitability margins and continuous improvement in capital structure coupled with healthy debt protection metrics. The ratings are however constrained by government regulation on the timber processing industry, highly fragmented industry with many unorganized players limiting price flexibility, working capital intensive nature of operations and profitability susceptible to raw material price and foreign currency fluctuation.



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Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability margin thereby leading to overall improvement in overall financial risk profile.
- Improvement in the capital structure along with improvement in debt service parameters
- Efficient working capital management improving overall liquidity position.

Downward Factors

- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics
- Stretch in the working capital cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters & long track record of the company in timber processing work**

Purbanchal Group has a track record of more than two decades in the timber processing sector. The group was established by Mr. Rakesh Kumar Agarwal, Mr. Mukesh Kumar Agarwal, and Mr. Omprakash Agarwal, who have an experience of over two decades in timber processing and manufacturing related activities. They are well supported by a team of qualified and experienced professionals. Further, the next generation of the Agarwal Family has also joined the business. Ms. Shailja Rakesh Agrawal has joined the organization after completing business management studies from abroad. She is currently looking after the brand building and Pan-India business development function in the group.

- **Diversified customer profile and geographic presence**

The group has a pan India presence with clients across regions mitigating the geographic concentration risk and the company also has clientele abroad India. The top 5 customers of the purbanchal group companies stood in the range between 15% to 25% of the sales, implying a diversified customer base.



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- **Proximity to ports**

The manufacturing unit is located in Gandhidham, Gujarat and it benefits from its proximity to the Kandla port, which is approximately 24 km, as it has specialized machinery for unloading of logs and this has led to growth of timber-based companies in the nearby area.

- **Improved scale of operation and healthy profitability margins**

There was continuous improvement in sale of decorative laminate sheets on year-on-year basis, mainly on account of post covid situation reopening of decorative laminates manufacturing companies at their full-scale capacities. Further the sales realization per unit is increasing on year-on-year basis mainly due to increase in construction and home re-modelling activities. The revenue of Purbanchal Group declined by 8.94% to Rs.320.70 crore in FY23 (Prov.) {vis-à-vis 352.17 crore in FY22 (A)} due to the significantly declined in the revenue of one of the group company namely PLuPL. PLuPL revenue has declined in FY23 as during FY22 the company has benefitted from one-time revenue opportunity. However, the EBIDTA margins of Purbanchal Group has marginally improved by 87 bps and stood at 7.10% in FY23 (Prov.) {vis-à-vis 6.22% in FY22 (A)} on account decrease in raw material consumption cost as a percentage of sales from 74.40% in FY22 to 74.35% in FY23. Further PAT margin also improved by 64 bps and stood at 2.71% in FY23 (Prov.) {vis-à-vis 2.07% in FY22 (A)} owing to reduction in interest cost due to decline in unsecured loans and depreciation cost. Nevertheless, the scale of operation and profitability margins remained modest which limits the company's financial flexibility in times of stress and deprives it from scale of benefits.

- **Continuous improvement in the capital structure coupled with healthy debt protection metrics**

The capital structure as indicated by adjusted overall gearing ratio and total outside liabilities / adjusted net worth (TOL/ATNW) ratio had improved and stood at 0.45 times and 1.60 times respectively as on March 31, 2023 (Prov.) {vis-à-vis 1.11 times and 3.42 times respectively as on March 31, 2022 (A)} mainly on account of improvement adjusted net worth base backed by profit accretion coupled with treatment of unsecured loans as a quasi-capital. The debt coverage indicators as indicated by interest coverage ratio and total debt to gross cash accruals ratio has marginal improved and stood at 2.88 times and



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3.21 times respectively in FY23 (Prov.) {as against 2.74 times and 5.94 times respectively in FY22 (A)} due to savings in interest cost and repayment of unsecured loans.

Key Rating Weaknesses

- **Government Regulation on the timber processing industry**

According to the Indian Forest Act, 1927 the state government can enact rules to regulate various aspects of forest management such as prescribing the procedure for issuance of a transit pass, setting up of sawmills, sawpits etc. The timber processing industry is highly regulated, and it depends upon the central as well as state government to enact any policies.

- **Operating in a highly fragmented industry with many unorganized players**

The domestic timber processing sector is highly crowded with the presence of many unorganized players with varied statures & capabilities. The presence of many unorganized players limits price flexibility and may impact the profitability margins of the company.

- **Working Capital Intensive Operations**

The operating cycle of the group had elongated and stood at 110 days in FY23 (Prov.) {vis-à-vis 88 days in FY22 (A)} mainly on account of increase in inventory days from 86 days in FY22 to 95 days in FY23 due to averaging effect, however in absolute terms inventory amount has reduced from Rs.82.05 crore as on March 31, 2022 to Rs.72.85 crore as on March 31, 2023. Further creditors period days has decrease from 147 days in FY22 to 134 days in FY23. This indicates working capital intensive operations of the companies, as a result of the same its working capital limits on combined basis utilized around 92% during the past 12 months ended as on April 30, 2023.

- **Susceptible to raw material price and foreign currency fluctuation**

Purbanchal Group imports timber logs mostly from overseas market, which are usually procured against 180 days LC, with delivery cycles ranging between twenty to thirty days. The production of veneer from logs is carried out without company orders on a rolling stock basis, as a result of which, the companies remain exposed to any adverse movement in



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timber prices during the period from procurement of timber to receipt of order from customers, as the final selling prices would be governed by the veneer prices as well as timber prices prevalent during that period. Moreover, since the companies rely upon imported logs for its raw material requirement; it remains exposed to change in export policies and political instability arising in the exporting countries. Moreover, the profitability of the companies is exposed to any adverse foreign exchange fluctuations as they do not hedge any of its forex exposure.

Analytical Approach: Combined

For arriving at the rating, Infomerics has combined the financial risk profiles of the Purbanchal Group Purbanchal Lumbers Private Limited (PLuPL), Purbanchal Laminates Private Limited (PLPL) and Purbanchal Composite Panel India Private Limited (PCPIPL) as these entities are under common management and have strong operational linkages and cash flow fungibility and similar line of business.

Applicable Criteria:

[Criteria for assigning rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Adequate

The group has been earning a comfortable level of gross cash accruals (GCA) for the last few years and the same is expected to increase further with increase in scale of operation. Purbanchal Group maintains sufficient cash and bank balance to meet its liquidity requirements. The average Bank Limit Utilisation for the working capital facilities of the group remained around 92% during the last twelve months ended as on April 30, 2023. The projected DSCR of over 2x indicate comfortable liquidity position of the company in meeting its debt obligations. Thus, the overall liquidity position of the company remained Adequate.

About the Group

The Purbanchal Group (PG) is promoted by Mr. Rakesh Agarwal, Mr. Mukesh Agarwal, and Mr. Omprakash Agarwal, with considerable experience in the timber industry. The group is



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engaged across the value chain of timber processing i.e. trading to further manufacturing of Veneers, Plywood, Bagasse Board, Laminates and WPC board. The facilities are located in Gandhidham, Gujarat. The group has 7 branches, and its network of dealers is spread across 50 cities in India.

About the Company

Purbanchal Composite Panel (India) Private Limited was incorporated on July 04, 2016 and its registered office located at Tinsukia, Assam. It is engaged in manufacturing of laminates using timber.

Financials (Combined)*:

(Rs. Crore)		
For the year ended / As on	31-Mar-2022 (Audited)	31-Mar-2023 (Provisional)
Total Operating Income	352.17	320.70
EBITDA	21.92	22.76
PAT	7.32	8.72
Total Debt	70.72	41.55
Tangible Net worth	63.98	92.42
EBITDA Margin (%)	6.22	7.10
PAT Margin (%)	2.07	2.71
Overall Gearing Ratio (times)	1.11	0.45

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Press Release					29-Mar-2022	30-Dec-2020	17-Oct-2019
1.	Long Term – Fund Based – Term Loan	Long Term	2.23	IVR BBB- / Stable	IVR BBB- / Stable	IVR BBB- / Stable	IVR BBB- / Stable



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		Current Ratings (Year 2023-24)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Press Release					29-Mar-2022	30-Dec-2020	17-Oct-2019
3.	Long Term – Fund Based – Cash Credit	Long Term	5.00	IVR BBB- / Stable	IVR BBB- / Stable	IVR BBB- / Stable	IVR BBB- / Stable
4.	Short Term – Non-Fund Based – Letter of Credit	Long Term	4.00	IVR A3	IVR A3	IVR A3	IVR A3

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com



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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 – Term Loan	–	–	Aug-2025	2.23	IVR BBB- / Stable
Long Term – Fund Based – Cash Credit	–	–	–	5.00	IVR BBB- / Stable
Short Term – Non-Fund Based – Letter of Credit	–	–	–	4.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details <https://www.infomerics.com/admin/prfiles/Len-27062023-PCPIPL.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.