



Press Release

Purbanchal Composite Panel (India) Private Limited

March 29, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term – Fund Based – Cash Credit	5.00	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Long Term – Fund Based – Term Loan	2.23	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 Composite Panel (India) Private Limited (PCPIPL) takes into account improvement in operational and financial performance of Purbanchal Group's in FY21 (Audited) and further improvement in 9MFY22 (Provisional Unaudited). 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.



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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.

- **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**

Purbanchal Group's total operating income registered a compound annual growth rate (CAGR) of ~11.68% during the period FY18–FY21 and registered year-on-year (Y-o-Y) growth of ~10.05% and remained at Rs.258.29 crore in FY21 (vis-à-vis Rs.234.70 crores in FY20). The business performance has improved since the second half of fiscal 2021 following the easing of pandemic related restrictions and revival in demand. As a result of the same the gross cash accruals and tangible net worth base also improved.

The operating profit margin of the group has remained healthy in the range of 7.37% to 8.10% during the period FY18–FY21 mainly on account of low value addition nature of the business, further net profit margin remained moderately low in the range of 1.48% to 2.66% during FY18–FY21, owing to high depreciation and interest cost. Moreover, during 9MFY22 (period refers from April 01, 2021 to December 31, 2021) the group has achieved total sales of Rs.227.55 crore, which is around 89% of the projected sales of FY22 and has order books in hand of Rs.112.82 crore which are expected to be executed by mid of FY24.

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

The capital structure marked by adjusted overall gearing of the group remained comfortable and witnessed continuous improvement over the years and stood at 1.09 times as on March 31, 2021 (vis-à-vis 1.22 times as on March 31, 2020) primarily on account accretion of profits to reserves and treatment of unsecured loans from



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promoters as quasi capital, which resulted into improvement in net worth base of the Purbanchal group. However, adjusted TOL/ATNW had marginally deteriorated and stood at 3.63 times as on March 31, 2021 (vis-à-vis 3.30 times as on March 31, 2020) mainly due to increase in creditors. Further, debt coverage indicators as indicated by interest coverage ratio and total debt to gross cash accruals ratio remained stable at 2.87 times and 6.00 times respectively in FY21 (vis-à-vis 2.82 times and 5.96 times respectively in FY20).

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 stature & 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 improved and stood at 103 days in FY21 (vis-à-vis 108 days in FY20) mainly on account of stretched its creditors which leads to elongated in creditors days from 151 days in FY20 to 167 days in FY21. Further Gross Current asset days has also elongated from 259 days in FY20 to 270 days in FY21. This indicates working capital-intensive operations of the companies, as a result of the same its working capital limits on combined basis utilized around 85.05% during the past 12 months ended as on December 31, 2021.



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- **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 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: Consolidated

The consolidated financials consider the financial strength of three companies which have similar management and common control. All the entities are in the same line of business. They have operational as well as financial linkages. The list of companies is given in Annexure 2.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Rating Methodology for Trading Companies](#)

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

[Consolidation of Companies](#)

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. The company 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 85% during the last twelve months ended as on February 28, 2022. The projected



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DSCR of 2.46x 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 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 (Consolidated)*:

(Rs. Crore)		
For the year ended / As on	31-Mar-2020 (A)	31-Mar-2021 (A)
Total Operating Income	234.70	258.29
EBITDA	19.01	20.02
PAT	6.25	6.58
Total Debt	58.49	61.83
Adjusted Tangible Net worth	48.07	56.65
EBITDA Margin (%)	8.10	7.75
PAT Margin (%)	2.66	2.55
Overall Gearing Ratio (times)	1.22	1.09

*Classification as per Infomerics standards

Status of non-cooperation with previous CRA: Nil

Any other information: None



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Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based – Cash Credit	Long Term	5.00	IVR BBB- / Stable	IVR BBB- / Stable (30-Dec-2020)	IVR BBB- / Stable (17-Oct-2019)	–
2.	Fund Based – Term Loan	Long Term	2.23	IVR BBB- / Stable	IVR BBB- / Stable (30-Dec-2020)	IVR BBB- / Stable (17-Oct-2019)	–
3.	Non-Fund Based – Letter of Credit	Short Term	4.00	IVR A3	IVR A3 (30-Dec-2020)	IVR A3 (17-Oct-2019)	–

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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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are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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



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Annexure 2: List of companies considered for consolidated analysis:

Name of Company	Ownership	Consolidation Approach
Purbanchal Lumbers Private Limited (PLuPL)	100%	Full Consolidation
Purbanchal Laminates Private Limited (PLPL)	100%	Full Consolidation
Purbanchal Composite Panel (India) Private Limited (PCPIPL)	100%	Full Consolidation

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Purbanchal-Composite-Panel-lenders-mar22.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.