Press Release

Regal Trading Private Limited

Jan 13, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities *	15.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities*	15.00	IVR A3 (IVR A Three)	Assigned
3.	Proposed Long Term Facilities	6.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	**36.00**		

*****Interchangeability between Fund Based and Non- Fund Based limits upto Rs 5 crore for a period of 6 months within the overall exposure of Rs 30 crore

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Regal Trading Private Limited (RTPL) draws comfort from experienced promoters, established relationship with customer and geographically diversified operations, locational advantage of manufacturing unit and diversified revenue mix. The ratings also positively consider improvement in scale of operation and revenue in FY20 and 8MFY21 and satisfactory capital structure with moderate debt protection metrics. improvement in capacity utilization. However, these rating strengths are partially offset by working capital intensive nature of operations with stretch in operating cycle and exposure to intense competition in the industry.

Key Rating Sensitivities:

Upward Factor:

- A Significant improvement in revenue along with improvement of profitability
- Improvement in liquidity through increase in cash accruals and efficient working capital management

Downward factor:

- Substantial fall in revenue resulting in dip in the profitability
- Further elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

The promoters have long standing experience in the timber industry. Prior to taking over RTPL in 2001, Late Mr.Radhey Kishan Poddar father of Mr.Jai Kishan Poddar and Mr.Vijay Kishan Poddar was engaged in trading of wood, procured from Dimapur (Assam) since 1992. The business risk profile of the company is well supported by extensive experience of its promoters.

- **Established relationship with customers and geographically diversified operations**

The company has a strong distribution network of about 100 wholesalers in 10 states across the country. The long standing presence in the industry has helped the company to establish healthy relationship with various timber suppliers and customers reflected through repetitive orders from its customers.

- **Locational advantage**

The company manufacturing facility is at Gandhidham, Gujarat, which is a timber hub in India which is well connected through Kandla port. Moreover, all the facilities of the company are well connected through roadways.

- **Diversified revenue mix:**

RTPL has a diversified product mix. RTPL derives 50.13% of it's revenue from manufacturing of timber related products and remaining from trading of various agriculture commodities such as sugar and rice. The company has gradually shifted in focus from trading sector to manufacturing sector, resulting in better profit margin's. The proportion of manufacturing to trading sale changed from ~28:72 in FY18 to ~50:50 in FY20

- **Improvement in scale of operation and revenue in FY20 and 8MFY21**

The total operating income of RTPL has improved from Rs115.04 crore in FY18 to Rs 138.32 crore in FY20 with y-o-y growth of 8.74% driven by higher market penetration and addition of new markets. With increase in total operating income, absolute EBIDTA and PAT has also improved in FY20. Consequently gross cash accruals has also improved from Rs.1.01 crore in FY18 to Rs.2.85 crore in FY20. The PAT margin has also witnessed an improvement from 0.72% in FY18 to 1.92% in FY20. During 8MFY21, the company achieved sales of Rs 78.24crore with PBT of Rs.2.11crore as against on revenue of Rs.75.94 crore PBT of Rs.1.96 crore PBT in 8MFY20. Apart from this, the company also has an order book of ~Rs.28. crore as on Nov 30, 2020 which is likely to be executed in next 2 months.

- **Satisfactory capital structure with moderate debt protection metrics**

The capital structure of the company remained comfortable marked by overall gearing and TOL/TNW at 0.85x and 1.42x respectively as on March 31,2020 (1.00x and 1.46x respectively as on March 31, 2019). Earlier the company mainly used non fund based limits (LC's to creditors) to support its working capital requirements. With increase in fund based debt level the Total debt to GCA increased stood at 8.36 years in FY20 though the interest coverage ratio remained satisfactory at 2.20x in FY20 (1.80x in FY19). The capital structure of the company is expected to improve going forward driven by proposed merger with Sati Mansion Private Limited (SMPL) as it has no debt in its books.

Key Rating Weaknesses

- **Exposure to intense competition**

The timber industry in India is highly fragmented with several unorganized players having small capacities, primarily catering to regional demand due to the economies attached to local transportation. This restricts the growth opportunities for players to expand to new regions and consolidate business. Further, with around 50 per cent of the sales coming from trading it further restricts the operating margin. The Company is likely to remain exposed to intense competition in the timber industry.

- **Working capital intensive nature of operations with stretch in operating cycle**

The operations of the company are working capital intensive as reflected in operating cycle of 108 days in FY20. Due to intense competition in its operating spectrum, RTPL has an elongated receivable period 87 days in FY20 which resulted in high working capital intensity for the business. Further, the company gradually resorted to bank borrowings to fund its working capital requirements which in turn resulted in decline in credit period (due to prompt payment to creditors) and consequently operating cycle witnessed moderation from 20 days in FY18 to 108 days in FY20. Due to higher reliance on bank borrowings the average cash credit utilisation of the company remained high at ~95% in the last 10 months ended on October, 2019.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

RTPL has is adequate liquidity marked by 2.85 crore of cash accruals over the medium term as against no major long term debt obligation in FY20. The company has expected cash accrual in the range Rs 3.17-4.76 crore with repayment of Rs 0.59 to 0.91 crore(emergency credit for Covid) . However, the working capital limits remained highly utilized at ~95% over the ten months ended October 2020 which indicates a limited liquidity buffer. The current and quick ratio stood at 1.81x and 1.26x at March 31,2020.

About the Company

Incorporated in 1989, Regal Trading Private Limited (RTPL) was taken over by Late Mr. Radhey Shyam Poddar and his sons Mr.Jai Kishan Poddar and Mr.Vijay Kishan Poddar in 2001.Initially started with trading of timbers, the company presently is engaged trade, manufacture & supply of International quality teakwood and timber products like doors, doorframes, wooden beading & mouldings ,window frames etc. RTPL has 2 manufacturing plant, each in Ghaziabad (Comissioned in 2012-13) and Gandhidham (operational from May 2019) .The company is also engaged in trading of rice & sugar and derives ~50% of the revenue from the trading agriculture products and rest from manufacturing & trading of timber &timber related products in FY20.

The company is currently in the process of merger of Sati Mansion Pvt. Ltd (SMPL, a group company of RTPL) which is expected to be completed in next financial year. SMPL was in timber trading however operations were discontinued in FY19 in order to consolidate timber business in one company. Merger with SMPL is expected to strengthen the capital structure of the company.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	127.19	138.32
EBITDA	5.56	6.86
PAT	1.23	2.66
Total Debt	25.05	23.81
Tangible Net worth	22.16	24.84
Adjusted Net Worth^	23.66	26.34
EBITDA Margin (%)	4.37	4.96
PAT Margin (%)	0.97	1.92
Overall Gearing Ratio (x)	1.00	0.85

^Unsecured loan from promoter is treated as Quasi Equity.

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: N.A.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Limits- Term Loan	Long Term	15.00	IVR BBB-/ Stable outlook	-	-	-
2.	Non- Fund Based Limits- Letter of Credit	Short Term	15.00	IVR A3	-	-	-
3.	Proposed Fund Based Limits	Long Term	6.00	IVR BBB-/ Stable outlook	-	-	-

***Interchangeability between Fund Based and Non- Fund Based limits upto Rs 5 crore for a period of 6 months within the overall exposure of Rs 30 crore

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
Fund Based Limits- Cash Credit*	-	-	-	15.00	IVR BBB-/Stable Outlook
Non- Fund Based Limits- Letter of Credir*			-	15.00	IVR A3
Proposed Fund Based Limits				6.00	IVR BBB-/Stable Outlook

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Annexure-II: Facility Wise Lender Details

https://www.infomerics.com/admin/prfiles/len-RTPL.pdf