Press Release

Regal Trading Private Limited

July 24, 2023

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility	28.25	IVR BB/Negative/ Issuer Not Cooperating (IVR Double B/Negative/Issuer Not Cooperating)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Upgraded and Moved Out from Issuer Not Cooperating	Simple
2.	Proposed Long Term Bank Facilities	7.75	IVR BB/Negative/ Issuer Not Cooperating (IVR Double B/Negative/Issuer Not Cooperating)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Upgraded and Moved Out from Issuer Not Cooperating	Simple
	Total	**36.00**	**Rupees Thirty Six Crore Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has upgraded and moved out from long-term rating at IVR BB+ with stable outlook for the bank loan facilities of Regal Trading Private Limited (RTPL).

The rating continues to draw comfort from its experienced promoters & long track record of the company in timber processing work, established relationship with customer and geographically diversified operations. However, these rating strengths are partially offset by diversified revenue mix, elongated operating cycle, decline in profitability margins, moderate capital structural with average debt protection metrics, government regulations on the timber processing industry and exposure to intense competition.

IVR has principally relied on the audited financial results of RTPL’s upto 31 March 2023, projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company’s management.

Upward Factors

- A significant improvement in revenue along with improvement in profitability margins.
- Improvement in liquidity through increase in cash accruals and efficient working capital management.

Downward Factors

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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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

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.

Key Rating Weaknesses

Diversified revenue mix:

RTPL has a diversified product mix. RTPL derives ~65% revenue from trading and ~35% revenue from manufacturing of timber and timber products. The company has gradually shifted in focus from manufacturing sector to trading sector, resulting in lower profitability margins.

Elongated Operating Cycle:

The operations of the company are working capital intensive in nature. The average receivable collection days and average inventory period days stood at 136 days and 61 days respectively in FY2023. The operating cycle is elongated (193 days in FY2023) on account of high debtor days. The operating cycle of the company has been stretched largely due to a high amount of debtors, amounting to Rs.43.55 crore in FY2023. The ability of the company to reduce the debtors and improve the collections will be a key rating sensitivity. Also, the average utilization of fund-based limits remained moderate at ~ 89% during the last twelve months ending April 2023 which indicates limited liquidity cushion.

Decline in profitability margins:

The company's total operating income has increased from Rs.89.86 crore in FY2022 to Rs.115.97 crore in FY2023 on account of shifting the focus from manufacturing sector to trading sector, resulted higher TOI. With the improved TOI, EBDITA and PAT also improved from Rs.6.04 crore and Rs.1.56 crore respectively in FY2022 to Rs.7.25 crore and Rs.2.00 crore respectively in FY2023. However, in percentage terms, EBIDTA and PAT margin has declined from 6.72% and 1.74% respectively in FY2022 to 6.25% and 1.73% respectively in

FY2023. Also, the company has shut down the Gandhidham Manufacturing unit due to the COVID-19 effect.

Moderate capital structure with average debt protection metrics:

The capital structure of the company remained moderate marked by overall gearing and TOL/TNW at 1.23x and 1.30x respectively as on March 31,2023 (1.28x and 1.38x respectively as on March 31, 2022). 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 17.02x in FY2023 though the interest coverage ratio remained satisfactory at 1.60x in FY2023 (1.58x in FY2022).

Government regulations 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.

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.

Analytical Approach: For arriving at the ratings, IVR has analysed RTPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity profile of RTPL is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.4.79-9.67 crore as against debt repayment obligation of ~Rs. 0.80 to Rs.1.92 crore in the same period. Moreover, the company has an adequate current ratio at above 6.39 times. The average working capital utilisation of the company remained high at ~88.78% during the past 12 months ended April 2023 indicating adequate liquidity buffer. However, the company has adequate overall gearing of 1.23x as on March 31, 2023. Further, the company has not planned any major capex or availment of long-term debt plan which imparts comfort. Going forward, in case of substantial increase in revenue, enhancement in bank lines remains critical to efficiently manage liquidity.

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 & moldings , window frames etc. The company is also engaged in trading rice & sugar and derives ~65% of the revenue from the trading agriculture products and rest from manufacturing & trading of timber &timber related products in FY2023.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	89.96	115.97
EBITDA	6.04	7.25
PAT	1.56	2.00
Total Debt	36.01	35.99
Tangible Net worth	28.11	29.28
EBITDA Margin (%)	6.72	6.25
PAT Margin (%)	1.74	1.73
Overall Gearing Ratio (x)	1.28	1.23

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 May 01, 2023	Date(s) & Rating(s) assigned in 2022-23 April 22, 2023	Date(s) & Rating(s) assigned in 2020-21 January 13, 2021
1.	Fund Based	Long Term	28.25	IVR BB+/Stable	IVR BB/Negative/ Issuer Not Cooperating	IVR BB+/Issuer Not Cooperating	IVR BBB-/Stable

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 May 01, 2023	Date(s) & Rating(s) assigned in 2022-23 April 22, 2023	Date(s) & Rating(s) assigned in 2020-21 January 13, 2021
2.	Proposed Log Term Facilities	Long Term	7.75	IVR BB+/Stable	IVR BB/Negative/ Issuer Not Cooperating	IVR BB+/Issuer Not Cooperating	IVR BBB- /Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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
Term Loan	-	-	September 2031	12.25	IVR BB+/Stable
GECL	-	-	November 2026	6.00	IVR BB+/Stable
Cash Credit	-	-	-	10.00	IVR BB+/Stable
Proposed- Cash Credit	-	-	-	7.75	IVR BB+/Stable

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-regal-jul23.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 Complexity Level of Rated Instruments/Facilities.