

**Press Release**

**Amul Boards Private Limited**

**October 17, 2019**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crores)</b>	<b>Rating Assigned</b>
1.	Long Term Fund Based Facility - Cash Credit	2.50	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)
2.	Short Term Fund Based Facility - LC	10.00	IVR A3 (IVR A Three)
	<b>Total</b>	<b>12.50</b>	

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from the experienced promoters & long track record of the group in timber processing work, diversified customer profile, geographic presence of the group, stable operating performance, improvement in capital structure and proximity to ports near its manufacturing plant. However, these strengths are, partially offset by adverse government regulations on the timber processing industry, operation in highly fragmented segment with many organized player, working capital intensive operations, and susceptibility to fluctuation in foreign currency and price of raw materials.

**Key Rating Sensitivities**

➤ **Positive Factor**

- Improvement in Operating Income
- Improvement in Capital Structure

➤ **Negative Factor**

- Adverse Government Regulations
- Heightened Foreign Exchange Volatility
- Sub-optimal Working capital management

**List of key rating drivers with detailed description**

## Key Rating Strengths

- **Experienced promoters & long track record of the group 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 experienced professionals.
- **Diversified customer profile and geographic presence**  
The group has a pan India presence with clients across regions mitigating the geographic concentration risk and the group has also clientele outside India. The top 5 customers of all the group companies range from 17% to 42% of the sales, implying a diversified customer base.
- **Stable operating performance**  
Purbanchal Group's total operating income registered a CAGR of ~18% during FY17-FY19 which was primarily driven by increased inflow of orders. The group generated PAT of Rs.5.05 crore in FY19 (Prov.).
- **Continuous improvement in the capital structure coupled with robust debt protection metrics**  
The capital structure of the group remained comfortable and witnessed continuous enhancement over the last three fiscals. The long-term debt equity ratio reduced from 1.26x as on March 31, 2017 to 0.86x as on March 31, 2019 (Prov.) and the overall gearing ratio improved marginally from 1.40x as on March 31, 2017 to 1.31x as on March 31, 2019 (Prov.). Further, interest coverage ratio stood at 2.51x for FY19 (Prov.) (improved from 2.27x in FY18).
- **Proximity to ports**  
The group operates out of Gandhidham, Gujarat and it benefits from its proximity to the Kandla port, which is located at a distance of approximately 24 km. The port has specialized machinery for unloading of logs and this has led to growth of timber based companies in the nearby area.

## 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 state government to enact any policies. Post the ban imposed by Myanmar government, the group started arranging for alternate sourcing for uninterrupted supply and started importing other varieties of logs i.e. Keruing & MLH logs from Malaysia, Indonesia and Vietnam. However timber manufactured from these logs differed in quality as well as colour than that of Gurja quality veneers and the same was not readily accepted by Indian market. However thereafter the group also started sourcing “Okoume” timber from African countries which is gradually finding acceptance by Indian Consumers. However further the group is facing difficulties in timely receipt of order placed for Okoume logs as there is considerable time lag between order placement and actual receipt of the product. The ban on import of raw timber from Myanmar has not only affected the availability of face timber for the industry but also hardened the prices.

- **Operation in a highly fragmented segment with many unorganized players**

The domestic timber processing sector is highly crowded with the presence of many unorganized players with varied statures & capabilities. The boom in the timber processing industry sector, a few years back, resulted in an increase in the number of players. While the competition is perceived to be healthy, significant price cut by a few players during the bidding process is a matter of serious concern for the users with respect to the quality of output. Unorganized players constitute around 75% of the industry.

- **Working Capital Intensive Operations**

The average collection period for FY19 is 157 days and inventory holding period is 60 days. This implies working capital intensive operations where much of the group’s cash is locked up with the customers. On average, the group took around 146 days to pay its suppliers in FY19.

- **Susceptible to raw material price and 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 firm orders on a rolling stock basis, as a result of which, the group remains 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 group relies 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 group is exposed to any adverse foreign exchange fluctuations as the group does not hedge any of its forex exposure.

## **Analytical Approach & Applicable Criteria**

Consolidated Approach – For arriving at the ratings, INFOMERICS has considered the consolidated financials of five companies constituting the Purbanchal Group. The list of companies is given in Annexure 2.

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## **Liquidity**

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 group maintains sufficient cash and bank balance to meet its liquidity requirements. The projected DSCR of 3.39x indicate comfortable liquidity position of the group in meeting its debt obligations.

## **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 4 branches and its network of dealers is spread across 50 cities in India. The group also exports goods to over 18 countries across the globe.

The group companies operating under Purbanchal Group are Purbanchal Laminates Pvt Ltd., Purbanchal Lumbers Pvt Ltd., Purbanchal Composite Panel India Pvt. Ltd., Amul Boards Pvt

Ltd., and Landmark Veneers Pvt Ltd., which are all controlled by the similar management and have common control.

**About the Company**

Amul Board was incorporated on 31 August, 1998, located close to Kandla & Mundra ports. Amul Board manufactures a wide range of plywood, Block Boards, Flush Door, Laminated Flush Door, Flexible Plywood & Decorative Plywood, Platinum Plywood & Block Board & Fire Retardant Plywood & Door, etc.

**Financials (Consolidated)**

**(Rs. crores)**

<b>For the year ended* / As On</b>	<b>31-03-2018 (Consolidated)</b>	<b>31-03-2019 (Consolidated)</b>
Total Operating Income	240.06	283.32
EBITDA	15.96	17.69
PAT	3.21	5.05
Total Debt	54.34	61.06
Tangible Networkth	38.89	46.53
EBITDA Margin (%)	6.65	6.24
PAT Margin (%)	1.34	1.78
Overall Gearing Ratio (x)	1.40	1.31

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** CRISIL had moved the rating of Amul Board Private Limited into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 06, 2019.

**Any other information:** N.A

**Rating History for last three years:**

Sl. 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 Facilities – Cash Credit	Long Term	2.50	IVR BBB-/Stable Outlook	--	--	--

2.	Short Term Non-Fund Based Facilities LC	Short Term	10.00	IVR A3	--	--	--
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**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](http://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. 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
Cash Credit	--	--	--	2.50	IVR BBB- /Stable Outlook
LC	--	--	--	10.00	IVR A3

**Annexure 2: List of companies considered for consolidated analysis**

<b>Name of Company</b>	<b>Ownership</b>	<b>Consolidation Approach</b>
Amul Board Private Limited	100%	Full Consolidation
Landmark Veneers Private Limited	100%	Full Consolidation
Purbanchal Composite Panel (I) Private Limited	100%	Full Consolidation
Purbanchal Laminates Private Limited	100%	Full Consolidation
Purbanchal Lumbers Private Limited	100%	Full Consolidation