

Press Release**Arunachal Timber Traders Private Limited****September 05, 2019****Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facilities – Cash Credit	4.50	IVR BB/ Stable outlook (IVR Double B with stable outlook)
2	Short Term Bank Facilities – Foreign Letter of Credit	6.50	IVR A4 (IVR A Four)
	Total	11.00	

Details of Facilities are in Annexure 1**Detailed Rationale**

The rating derives strength from extensive experience of promoters with established relationship with suppliers, location specific advantage and minimal external long term debt repayment burden. The rating however is partially offset by modest scale of operations, stiff competition, stagnant revenue and working capital intensive nature of operations. Scale of operations, working capital management and overall gearing are the key rating sensitivities.

List of key rating drivers with detailed description**Key Rating Strengths****Extensive experience of promoters and established relationship with suppliers:**

The business is led by Mr. Shashi Aggarwal, who had initially entered the timber industry with Arunachal Timber Traders (Proprietary Firm) in 1979 and has a successful operational track record in the timber processing business since then. Longstanding association with dealers assure timely supply and favourable trade terms. The remaining directors are his family members, having thorough knowledge of the industry.

Location Specific Advantage:

Gandhidham (Gujarat) is the timber hub in India. Given its proximity to Kandla Port, it helps ATTPL in timber processing and distribution. Also, it benefits in maintaining healthy business relations with various other local timber merchants and suppliers.

Minimal external long term debt repayment burden:

The company benefits from the minimal external long-term debt liabilities as on March 31, 2019 (Provisional), thus providing cushion to absorb any adverse trends in the business operations to a certain extent. The overall gearing stood at 0.85 times as on March 31, 2019 (Provisional), while maintaining a moderate Interest Coverage at 1.54 times for FY19 (Provisional).

Key Rating Weakness

Modest scale of operations:

ATTPL trades and processes timber, which is used in manufacturing of furniture and interior decor. The timber industry has low entry barriers because of low capital requirement while intense competition restrains ability to widen reach and increase profitability. This is shown in ATTPL's modest top line of Rs. 19.23 crore and PAT of Rs. 0.21 crore for the year 2019 (Provisional).

Stiff competition and fragmented industry:

It faces stiff competition from numerous players operating in the industry. The fragmented and competitive nature of the industry limits the pricing flexibility and keeps the profitability margins under pressure. While ATTPL benefits to a certain extent due to promoter's operational track record of more than 4 decades, the pricing flexibility is still limited by intense competition. Additionally, demand for engineered panel boards have increased compared to plywood.

Stagnant revenue:

Only recently, the promoters have incorporated a sister company, named 'ATT Panels', which is also associated with the timber industry. The company is into manufacturing of Plain and Pre-Laminated Particleboard. The full-fledged operations commenced from January 1, 2018. Sales booked for FY19 is Rs.41.29 crore. For the promoters, it is a flagship entity and has high scope for revenue generation. Hence, Arunachal Timber Traders Pvt Ltd's operations are to remain the same for the medium term.

Working capital intensive nature of operations:

Operations remain working capital intensive as reflected in the elongated working capital cycle of the company, due to stretched receivables of 174 days as on March 31, 2019 (provisional).

The company maintains inventory of 80 days (including unloading period). Operations are expected to remain working capital intensive over the medium term.

Analytical Approach & Applicable Criteria

Rating Methodology for Trading Companies

Standalone

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The Company has thin margins and modest GCA on account of modest scale of operations. The ICR and DSCR are moderate at 1.54 times and 1.30 times for FY19. However, in absence of long-term debt in the projected period, the company's liquidity position appears to be moderate. The company is expected to be able to service its debt obligations over the next one year.

About the Company

Incorporated in August 1998, Arunachal Timber Traders Private Limited (ATTPL) took over the business of Arunachal Timber Traders (Proprietary firm) and is into importing and processing of timber. It has its operating offices in Delhi and Gujarat, while the processing unit is situated at Gandhidham, Gujarat.

Financials

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Provisional)
Total Operating Income	18.77	19.23
EBITDA	0.72	1.06
PAT	0.11	0.21
Total Debt	4.87	4.11
Tangible Net worth	4.63	4.85
EBITDA Margin (%)	3.82	5.52
PAT Margin (%)	0.59	1.09
Overall Gearing Ratio (x)	1.05	0.85

*Classification as per Infomerics' standards.

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

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 Bank Facilities – Cash Credit	Long Term	4.50	IVR BB/- Stable outlook	--	--	--
2.	Short Term Bank Facilities – Foreign Letter of Credit	Short Term	6.50	IVR A4	--	--	--

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. 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
Long Term Fund Based Limits – Cash Credit	--	--	--	4.50	IVR BB/ Stable outlook
Short Term Bank Facilities – Foreign Letter of Credit	--	--	--	6.50	IVR A4