

Press Release

Sarda Plywood Industries Limited

November 20, 2018

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	42.74 (including proposed limit of Rs.1.78 crore)	IVR BB- /Stable (IVR Double B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	37.26	IVR A4 (IVR A Four)	Assigned
Total	80.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sarda Plywood Industries Limited (SPIL) derive comfort from its long track record & experienced promoters, strategic location of the plant, growth prospects for the plywood sector. However, the rating is constrained by low EBIDTA and book losses, high risk due to foreign currency exposure, stretched debt protection matrices and moderate gearing and presence in highly competitive industry. Growth in scale of operations, and profitability are the key rating sensitivities.

List of Key Rating Drivers

- Long track record & experienced promoters
- Strategic location of the plant
- Growth prospects for the plywood sector
- Low EBIDTA and book losses
- High risk due to foreign currency exposure
- Stretched debt protection matrices and moderate gearing
- Presence in highly competitive industry

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long track record and experienced promoters

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SPIL has been in the business for more than half a century with the current promoters, signifying its long & established track record with pan India distribution network. Currently, the day-to-day affairs of the company are being looked after by Managing Director, Shri Sudip Chitlangia having around three decades of experience in the plywood industry. He is well supported by the other directors.

Strategic location of the plant

SPIL's manufacturing facility is located in Jeypore, Assam & Rajkot, Gujarat. Jeypore is in close proximity to timber plantations and various tea gardens. The location is in upper Assam which has quality tea leaves. Also, timber is easily available in nearby regions. Rajkot is close to various ports which facilitates transfer of imported raw materials. Further, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Proximity of the plant to source of raw-material and end market for its products results in containment of transportation cost.

Growth prospects for the plywood sector

The Indian wood panel market is valued at INR 270 billion. Plywood has a share of 67% (INR 180 billion). Tailwinds to this sector include higher disposable income; rising urbanisation; real estate sector's growth, particularly in Tier II and Tier III cities; and the fast growing replacement market. The government's 'Housing for all by 2022' policy gives further impetus to the plywood industry.

Key Weaknesses

Low EBIDTA and book losses

SPIL registered a CAGR of about 9% during FY16-18 with a y-o-y growth of ~4.67% in its total operating income in FY18 over FY17. Though the operating revenue has increased, the company's EBIDTA & PAT margins are low due to high operational costs.

High risk due to foreign currency exposure

The company imports raw materials. As on 30 September, 2018 unhedged foreign currency exposure of SPIL was around 54.74% of the total exposure. Thus, Euro & Dollar appreciation is likely to have an adverse impact, on the profitability. However SPIL is into periodical hedging to mitigate foreign exchange fluctuation risk.

Stretched debt protection matrices and moderate gearing

The capital structure of the company remained moderate since last three closing dates. The long term debt equity ratio and the overall gearing ratio were comfortable at 0.14x and 1.29x respectively as on March 31, 2018. Furthermore, the debt protection metrics marked by the interest coverage ratio and Total debt to GCA was stretched at 0.50x and -18.97x respectively in FY18.

Presence in a highly competitive industry

The plywood industry has many unorganised players catering to regional demand to reduce high transportation costs, as price is the main differentiating factor in this segment. Plywood demand and prices are also adversely affected by availability of cheap substitutes such as particle and medium-density fibre boards. Intense competition from big players may continue to restrict scalability and limit pricing power, thereby constraining profitability. However, GST and EwayBill implementation is bridging the gap between unorganized and organized players.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

About the Company

Sarda Plywood Industries Ltd. (SPIL) was founded in 1957, by late Sri P.D. Chitlangia. The first manufacturing facility was established in Jeypore, Assam, the home of plywood manufacturing. The DURO range of quality plywood products was rolled out from this factory. Today SPIL's production facility is a technologically sophisticated set-up with advanced equipment, processes and support services for the production of the entire spectrum of products. SPIL has a manufacturing facility at Jeypore, Assam and one at Rajkot, Gujarat. There Rajkot facility was under the ownership of PS Plywood Products Pvt. Ltd. (PSPPL) [one of SPIL's associates], however with effect from April 1, 2016 PSPPL stands merged with SPIL. SPIL diversified into tea business in the year 1988 and manufactures tea in the Jeypore plant along with plywood.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	207.85	217.56
EBITDA	3.09	3.59
PAT	-1.88	-4.88
Total Debt	55.54	55.55
Tangible Net worth	48.11	43.11
EBITDA Margin (%)	1.49	1.65

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For the year ended* / As On	31-03-2017	31-03-2018
PAT Margin (%)	-0.90	-2.23
Overall Gearing Ratio (x)	1.15	1.29

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit (including proposed limit of Rs.1.78 crore)	Long Term	37.74	IVR BB- / Stable Outlook	-	-	-
2.	Term Loan	Long Term	5.00	IVR BB- / Stable Outlook	-	-	-
3.	Short Term Non Fund Based Limits –Letter of Credit*	Short Term	34.61	IVR A4	-	-	-
4.	Short Term Non Fund Based Limits –Bank Guarantee	Short Term	2.00	IVR A4	-	-	-
5.	Short Term Non Fund Based Limits –Forward Contract	Short Term	0.65	IVR A4	-	-	-

*Under the SBI's LC Limit of Rs.14.21 Crores, 50% of the LC limit can be converted to CC but the amount shall be restricted to Rs. 2.00 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 Valuation And Rating Pvt. Ltd.

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 (including proposed limit of Rs.1.78 crore)	-	-	-	37.74	IVR BB- /Stable Outlook
Term Loan	Feb-2016	13%	Mar-2022	5.00	IVR BB- / Stable Outlook
Letter of Credit*	-	-	-	34.61	IVR A4
Bank Guarantee	-	-	-	2.00	IVR A4
Forward Contract	-	-	-	0.65	IVR A4

*Under the SBI's LC Limit of Rs.14.21 Crores, 50% of the LC limit can be converted to CC but the amount shall be restricted to Rs. 2.00 Crore.