

RATING RATIONALE

R K LUMBERS PVT. LTD

Brickwork Ratings reaffirms the rating for the Bank Loan Facilities of ₹ 49.00 Crores of R K Lumbers Pvt. Ltd.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Nov, 2019)	Present
Fund Based	6.48	15.00	Long Term	BWR BB Stable (Reaffirmed)	BWR BB Stable (Reaffirmed)
Non Fund Based	30.00	34.00	Short Term	BWR A4+ (Reaffirmed)	BWR A4+ (Reaffirmed)
Total	36.48	49.00	INR Forty Nine Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK : Stable

BWR has reaffirmed the rating at “BWR BB Stable/BWR A4+” for the bank loan facilities of R K Lumbers Pvt. Ltd. The rating draws strength from the experienced promoters, and modest scale of operations. However, the rating is constrained on account of low profitability margins, high competition from unorganised sector, and regulatory risk.

The rating outlook has been assigned as "Stable" as BWR believes that R K Lumbers Pvt. Ltd. business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case there is improvement in revenues and gross margins levels. The rating outlook may be revised to 'Negative' if there is any deterioration in financial risk profile or liquidity issues.

KEY RATING DRIVERS

Credit Strengths:

- **Experience of the promoters:** Promoters have over a decade of business experience in the timber trading business. Due to well established trade relations with suppliers, they are able to ensure undisturbed flow of raw material and favourable trade terms.
- **Modest scale of operations:** The entity reported sales of Rs 106.54 crs in FY 19 (Audited) as against sale of Rs.117.53 crore in FY 18 (Audited). However, the sales of Rs.109.02 crore are reported in FY 20(Prov.). Profit After Tax of Rs.0.68 crores was reported in FY 19(Audited) which improved from Rs.0.64 Crores in FY 18 (Audited). The PAT has further improved to Rs.0.79 Crores in FY 20 (Prov). Also, the entity has a low gearing (TD / TNW) of 0.61x in FY 19 (Audited).

Credit Challenges

- **Low profitability margins:** The company in FY 19 (Audited) reported Net Profit Margin of 0.64% v/s 0.55% in FY 18 (Audited). Operating Profit Margins for FY 19 (Audited) were 2.81% against Rs 2.80% in FY 18 (Audited).
- **High competition from unorganised sector:** The timber industry players witness high competition from small and unorganised players. This in turn limits their pricing policies and has a bearing on the margins.
- **Regulatory risk:** Since majority the raw material requirements are satisfied via imports, the company is exposed to major policy and regulatory changes. The import policy can vary according to international politics and can have impact on the supply chain.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance . BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its financial risk profile and maintaining adequate liquidity will remain the key rating sensitivities.

Positive: The rating may be upgraded if the company interalia, is able to improve its topline, and profit margins.

Negative: The rating may be downgraded if inter alia, there is any deterioration in financial risk profile, or on account of any unforeseen unfavourable events.

LIQUIDITY POSITION : Adequate

There is no subsidiary/associate.

The company has no liquid investments and cash balances is of Rs. 7.51 crs. in FY 19 (Audited). There is a Long Term Borrowings of Rs. 2.86 crs in FY 19 (Audited) which includes secured loans from multiple banks and financial institutions being business loans and vehicular loans of Rs 2.19 crs, unsecured loans from related parties of Rs 0.67 crs (this loans are interest free and have no fixed repayment obligations). The Cash Credit Utilization for a period of 4 months from Mar, 2020 to June, 2020 stands at 73.95%. Current ratio of the company stands at 1.37x in FY 19 (Audited). The company has a DSCR of 0.97x & ISCR of 1.80x in FY 19 (Audited) . Conversion Cycle is at 25 days in FY19, due to the high debtor period.

COMPANY PROFILE

R K Lumbers Private Limited was incorporated in 2006 with a registered office in Delhi. The Company has two directors namely Mr. Pritam Kumar and Ms. Mamta Agarwal. The company has a branch office in Gandhidham, Gujarat. The company is engaged in trading and processing of wooden logs (Timber). Majority of the raw material requirement is imported from countries like Singapore and New Zealand.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 2019	FY 2018
Result Type		Audited	Audited
Operating Income	₹ Cr	106.54	117.53
EBITDA	₹ Cr	3.00	3.29
PAT	₹ Cr	0.68	0.64
Tangible Net Worth	₹ Cr	14.36	13.67
Total Debt/TNW	Times	0.61	0.60
Current Ratio	Time	1.37	1.41

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Nil

RATING HISTORY FOR THE PAST THREE YEARS [including withdrawal and suspended]

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	2019	2018	2017
Fund Based	Long Term	15.00	BWR BB Stable (Reaffirmed)	BWR BB Stable (Reaffirmed)	BWR BB Stable (Reaffirmed)	BWR BB Stable (Assigned)
Non Fund Based	Short Term	34.00	BWR A4+ (Reaffirmed)	BWR A4+ (Reaffirmed)	BWR A4+ (Upgrade)	BWR A4 (Assigned)
Total		49.00	INR Forty Nine Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Services Sector**

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R K Lumbers Pvt. Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
SBI	CC	15.00	-	15.00
	Foreign letter of credit	-	30.00	30.00
	Inland letter of credit	-	4.00	4.00
	Stand by letter of credit	-	(30.00)	(30.00)
TOTAL				49.00

INR Forty Nine Crores Only



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DISCLAIMER

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