

## RATING RATIONALE

30 Dec 2019

### R.K. Plywood

### Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of ₹. 9.18 crores of R.K. Plywood

#### Particulars

Facility	Previous Amount (₹ Crs)	Present Amount Rated (₹ Crs)	Tenure	BWR Rating History (Nov, 2018)	Rating**
Fund Based	9.50	9.18	Long Term	BWR B <u>Stable</u> Assigned	BWR B+ <u>Stable</u> Upgraded
<b>Total</b>	<b>9.50</b>	<b>9.18</b>	<b>INR Nine Crores and Fifty Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

#### RATING ACTION / OUTLOOK

BWR has upgraded the rating to BWR B+; with Stable: Outlook. upgradation in the rating reflects rich experience of the managing partner, improvement in the scale of operations, good operating margin, and comfortable coverage metrics. However, the rating is constrained by low net profit margins, high gearing levels, and constitution of the entity as a partnership firm.

The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. BWR expects that the company’s performance is likely to be maintained in the medium term.

#### KEY RATING DRIVERS

##### Credit Strengths

- ➔ **Experienced managing partner:** The firm reaps the benefit of the rich experience of Mr. Ajay Kumar Agarwal, the key managing partner of the firm. He is a postgraduate in management and carries experience of over three and a half decades in the industry.
- ➔ **Improvement in the scale of operations:** The firm has reported the total operating revenue of INR 9.80 crores in the very first year of operation i.e. FY 2019. As per the information from the management, the firm is estimated to achieve the revenue of INR 22.00 crores in FY 2020 and it

has already clocked sales of INR 13.21 crores till November 2019 of the current financial year.

- **Good operating margins:** The operating profitability margins reported by the firm in FY 2019 stood at 19.27% and the trend is expected to continue in the medium term.
- **Comfortable coverage metrics:** The coverage metrics marked by DSCR and ISCR are comfortable at 1.83x and 2.29x respectively in FY 2019 and it is expected that the indicators will remain on a comfortable side in the medium term as well.

### **Credit Weaknesses**

- **Low net profit margin:** Although operating profit margin is at a good level but the net profit margin is low at 1.26% in FY 2019. It is expected that the NPM will improve in the medium term.
- **High gearing levels:** The low tangible net worth of INR 3.31 crores in FY 2019 has resulted in high gearing levels marked by Total Debt/TNW and TOL/TNW of 3.08x and 3.10x respectively in FY 2019. The gearing is expected to come down in the medium term.
- **Constitution of the entity: The entity being a partnership concern** faces the risk of the capital being withdrawn by the partners in case of personal exigencies which may result in deterioration of the capital structure.

### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

For arriving at its ratings, BWR has considered the standalone financials of the firm. 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 achieve the projected revenue, improvement in profitability margins, improvement in gearing levels through additional capital infusion, maintain the comfortable debt coverage metrics, and efficient management of the working capital will be the key rating sensitivities.

**Positive:** Any substantial increase in revenue, profitability and improvement in overall financial risk profile.

**Negative:** Any steep decline in sales and profitability margins and degradation in the overall financial risk profile.

### **LIQUIDITY POSITION**

The firm's liquidity position is repressed by modest cash and cash equivalents of INR 0.03 crores in FY 2019. The total amount of fund-based working capital limit of INR 6.00 crores has been utilized to the extent of 91% which indicates tight liquidity position of the firm. The current ratio

and the quick ratio of 1.34x and 0.68x respectively in FY 2019 denoted moderate liquidity. Hence, the overall liquidity position of the firm is stretched.

### FIRM'S PROFILE

R.K. Plywood is a partnership firm that was established in the year 2017 in Kashipur. However, it started its commercial operations from June, 2018. The firm manufactures plywood. The firm has 3 partners namely, Mr. Ajay Kumar Agarwal, Ms. Shivangi Agarwal, and Mr. Deepanshu Agarwal of which Mr. Ajay Kumar Agarwal is the key partner of the firm who is a Post-Graduate and has over three decades of experience in the industry.

### KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 19	FY 18
Result Type		Audited	Audited
Operating Revenue	₹ Crores	9.80	0.00
EBITDA	₹ Crores	1.89	0.00
PAT	₹ Crores	0.12	0.00
Partner's Capital	₹ Crores	3.31	1.36
TOL/TNW	Times	3.10	1.33
Current Ratio	Times	1.34	4.29

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

### RATING HISTORY

Facility	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	Nov, 2018	2017	2016
Fund Based	Long Term	9.18	BWR B+ Stable Upgraded	BWR B Stable Assigned	NA	NA
Total		9.18	INR Nine Crores and Eighteen Lakhs Only			

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Entities](#)

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**R.K. Plywood**

### ANNEXURE I

#### Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank	Cash Credit	6.00	-	6.00
2.		Term Loan (O/s)	3.18	-	3.18
<b>TOTAL</b>					<b>9.18</b>

**Total Rupees Nine Crores and Eighteen Lakhs Only.**

\* O/s out of the sanction of INR 3.50 crores



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