



Press Release

Purbanchal Composite Panel (India) Private Limited (PCPIPL)

December 30, 2020

Rating

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action
Long Term Fund Based Facility - Cash Credit	5.00	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)	Re-affirmed
Long Term Fund Based Facility – Term Loan	3.70	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)	Re-affirmed
Short Term Non Fund Based Facilities –Letter of Credit	4.00	IVR A3 (IVR Single A Three)	IVR A3 (IVR Single A Three)	Re-affirmed
Total	12.70 (Twelve Crore and Thirty Seven Lakhs)			

Details of Facilities are in Annexure I

Detailed Rationale

The current rating continues to derive strength from Experienced promoters & long track record of the company in timber processing work, Diversified customer profile and geographic presence, Stable operating performance, Continuous improvement in the capital structure coupled with robust debt protection metrics & Proximity to ports. However, these strengths are, partially offset by Government Regulation on the timber processing industry, Operation in



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a highly fragmented segment with many unorganized players, Working Capital Intensive Operations & Susceptible to raw material price and currency fluctuation

Key Rating Sensitivities

Upward rating factor(s) –

- Improvement in Operating Income
- Improvement in Capital Structure

Downward rating factor(s) –

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

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters & long track record of the company 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 qualified and experienced professionals. Further, the next generation of the Agarwal Family, Ms. Shailja Rakesh Agrawal has joined the organization after completing business management studies from abroad. She is currently looking after the brand building and Pan-India business development function in the group.

Diversified customer profile and geographic presence

The company has a pan India presence with clients across regions mitigating the geographic concentration risk and the company also has clientele abroad India. The top 5 customers of the three group companies (PLPL, PLuPL & PCPIPL) range from 18.92% to 39.46% of the sales, implying a diversified customer base.



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Stable operating performance

Purbanchal Group's total operating income registered a CAGR of ~12.18% during FY18-FY20(P) which was primarily driven by increased inflow of orders. The group has also generated cash accruals of Rs.9.52 crore in FY20. The group's EBITDA Margins have stayed consistently between 6.50% and 6.70% in FY18-FY20.

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 on net adjusted Tangible Networth reduced from 1.46x as on March 31, 2018 to 0.84x as on March 31, 2020 and the overall gearing on net adjusted Tangible Networth ratio improved marginally from 1.85x as on March 31, 2018 to 1.19x as on March 31, 2020 (Prov.). Further, interest coverage ratio stood at 2.29x for FY20 (P) (improved from 2.20x in FY19).

Proximity to ports

The company is located in Gandhidham, Gujarat and it benefits from its proximity to the Kandla port, which is approximately 24 km, as it 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 company 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 company also started sourcing "Okoume" timber from African countries which is gradually finding acceptance by Indian Consumers. However further the company is facing difficulties in timely receipt of order placed for Okoume



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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 amelioration 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. 75% of the industry is mainly dominated by unorganised players.

Working Capital Intensive Operations

The average collection period for FY20 is 171 days and inventory holding period is 50 days. This implies working capital intensive operations where much of the companies' cash is locked up with the customers. On average, the companies took around 146 days to pay its suppliers in FY20.

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 company orders on a rolling stock basis, as a result of which, the companies remain 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 companies rely 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 companies is exposed to any adverse foreign exchange fluctuations as they do not hedge any of its forex exposure.

Analytical Approach: Consolidated Approach



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The consolidated financials consider the financial strength of 3 companies which have similar management and common control. All the entities are in the same line of business. They have operational as well as financial linkages. The list of companies is given in Annexure 2.

Applicable Criteria

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

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 company maintains sufficient cash and bank balance to meet its liquidity requirements. The average Bank Limit Utilisation for the working capital facilities of the group is 74.55%. Thus, the overall liquidity position of the company is **Adequate**.

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, Baggase Board, Laminates and WPC board. The facilities are located in Gandhidham, Gujarat.. The group has 5 branches and its network of dealers is spread across 50 cities in India.

About The Company

Purbanchal Composite Panel (India) Private Limited was incorporated on 4 July 2016. and registered in Shillong. Purbanchal Composite Panel (India) Private Limited is engaged in manufacturing of laminates using timber.

Financials (Consolidated):

(INR Crore)

For the year ended* / As on	31-03-2019	31-03-2020
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	(Audited)	(Provisional)
Total Operating Income	227.12	231.29
EBITDA	15.15	15.35
PAT	4.99	6.38
Total Debt	54.89	57.54
Tangible Net worth (Book Value)	25.33	31.68
EBIDTA Margin (%)	6.67	6.64
PAT Margin (%)	2.18	2.72
Overall Gearing Ratio (x)	1.52	1.19

* 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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (17.10.19)	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Fund Based Facility - Cash Credit	Long Term	5.00	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)	--	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)	--
2.	Long Term Fund Based Facility – Term Loan	Long Term	3.70	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)	--	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)	--
3.	Short Term Non Fund Based Facilities –Letter of Credit	Short Term	4.00	IVR A3 (IVR Single A Three)	--	IVR A3 (IVR Single A Three)	--



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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.

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About Infomerics:

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facility - Cash Credit	--	Reference Rate + Spread i.e. 8.75%	On Demand	5.00	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)



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Long Term Fund Based Facility – Term Loan	--	--	June, 2021	3.70	IVR BBB- /Stable Outlook (IVR Triple B minus with Stable Outlook)
Short Term Non Fund Based Facilities – Inland/Import Letter of Credit	-	-	-	4.00	IVR A3 (IVR Single A Three)

Annexure 2: List of companies considered for consolidated analysis

Name of Company	Ownership	Consolidation Approach
Purbanchal Lumbers Private Limited (PLuPL)	100%	Full Consolidation
Purbanchal Laminates Private Limited (PLPL)	100%	Full Consolidation
Purbanchal Composite Panel (India) Private Limited (PCPIPL)	100%	Full Consolidation