

December 27, 2023

The Indian Wood Products Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	55.75	55.75	[ICRA]BB+ (Stable); reaffirmed
Short-term – Non-fund Based	16.50	16.50	[ICRA]A4+; reaffirmed
Long-term/ Short-term – Unallocated	5.27	5.27	[ICRA]BB+ (Stable)/[ICRA]A4+; reaffirmed
Total	77.52	77.52	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in ICRA’s opinion that The Indian Wood Products Company Limited (IWP) will continue to benefit from its track record of operations as a leading organised manufacturer of *kattha* (catechu) and its established relationships with reputed clientele in the *paan masala* and associated industry. The company has witnessed moderate revenue growth in H1 FY2024 led by an increase in selling price. ICRA expects growth to continue in the medium term through a mix of volume and price improvements.

The ratings are, however, constrained by the company’s continued modest profitability due to intense competition in the *kattha* manufacturing business further exacerbated by weak profitability in the trading of spices till Q2 FY2024. The margin profile remains vulnerable to adverse movements in raw material prices with a limited ability to pass on the same to customers. However, with the spice business being wound up, the company is expected to witness a gradual margin improvement, the pace of which remains to be seen. IWP’s working capital requirements are high led by high stocking requirements and credit offered to clients. Consequently, with high working capital funding requirements, IWP’s credit metrics have been modest. The ratings also factor in that the *kattha* and related products industry is highly regulated and fragmented, which along with competition from many unorganised players puts pressure on the profit margins.

The Stable outlook on IWP’s rating reflects ICRA’s opinion that the company will remain a key player in the *kattha* industry, while its established association with reputed customers would ensure revenue visibility and growth.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in *kattha* industry – The current promoters have around four decades of experience in the *kattha* industry. Mr. KK Mohta, Chairman and Managing Director of IWP, along with his son, Mr. Bharat Mohta, and other professional directors have been associated with the company for a long time. IWP has been in the *kattha* manufacturing business since 1920.

Reputed clientele of *paan masala* industry – IWP has been manufacturing *kattha* for reputed clients such as Dharampal Satyapal Ltd. and others. These *paan masala* manufacturing companies have a long track record in the business and own well-recognised brands like ‘Rajnigandha’, ‘Vimal’ and ‘Dilbag’. The company has been adding new clients as well as focusing on premium products. The company has been witnessing moderate revenue growth in FY2023 and H1 FY2024, which is expected to continue in the medium term through a mix of volume and price improvements.

Credit challenges

Profitability is vulnerable to adverse movement in raw material prices – IWP's profitability was affected at the onset of the pandemic by the lockdowns and a rise in input costs in the last 3-4 years. The price of the key raw material, Gambier and *Khairwood* (timber), remained elevated, and the company had limited liability to pass on the same to customers due to weak demand. Higher fixed expenses, including employee costs along with losses in spice trading, also exerted pressure on the operating margins in H1 FY2024. The company hiked selling prices in FY2022, FY2023 and the current fiscal, but the same has not been fully commensurate with the impact of input cost rise. Due to low profitability, RoCE has been moderate for the company over the years and is expected to remain similar in the near to premium term. The profitability has improved only gradually with growing volume and realisations. The same is also expected to be supported by the closure of the spice trading business.

High working capital intensity – IWP's working capital intensity has been high, ranging at ~50-60% during the last few years due to high inventory and receivable days. Seasonality of the raw material crop and consequent need for high stocking of raw material leads to higher working capital requirement. Moreover, onboarding new clients often necessitates the offer of liberal credit terms to them. The company, thus, remains dependent on working capital debt, which coupled with modest margins results in modest coverage metrics (Interest coverage of 1.6 times and Total Debt/OPBDITA of 7.5 times in FY2023).

Intense competition in industry – The *kattha* industry is characterised by stiff competition from a large number of unorganised players. This impacts the pricing power and profitability of industry players. Factors like volatility in the prices of *gambier*, a major raw material that is imported, may affect IWP's profitability in the short-term. While the company is a leading organised player, it has a moderate scale of operations.

Exposure to regulatory risk – *Kattha* is exposed to high Government regulations due to its final use in *paan masala* products. Therefore, any changes in Government policies for manufacturing *paan masala* may affect IWP's performance.

Environmental and social risk

Environmental considerations: The company's key raw materials are agro-based products, which remain exposed to risks of adverse weather conditions. However, procurement from multiple sources and maintaining stock mitigate the risks to an extent. IWP's manufacturing process releases polluted water that is prone to environmental corners for nearby plants and human beings as well. However, the company works towards minimising its freshwater requirements through initiatives such as rainwater harvesting, using water efficient fixtures and effluent treatment plants. Water from the effluent treatment plants is recycled within the factory and used for maintaining greenbelts, gardens and landscapes.

Social considerations: IWP's core product, *kattha*, is widely used in tobacco and tobacco containing products, which are detrimental to health. The increasing consumer awareness about the health risks of tobacco products could impact consumption preferences and, thus, demand for the company's products. However, the use of *kattha* in other industries, such as a flavouring agent, acts as a mitigant to an extent. The company's operations are carried out under well guided safety norms for employees with zero accidents reported. The company does not employ child labour; and works towards improving people's lives and building communities through its corporate social responsibility (CSR) activities.

Liquidity position: Adequate

IWP's liquidity is **adequate** on account of the moderate cushion of ~Rs. 8 crore as of October 2023 in the working capital limits. The company has been utilising ~84% of the cash credit on an average during the 12-month period ending November 2023. The company has yearly repayments of ~Rs. 3.0 crore, going forward. There is no major capex planned in the near-to-medium term. Cash generation from the business is expected to be limited given higher working capital requirements. However, buffers in the working capital limit and modest free cash balances are expected to support IWP's liquidity profile.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if a sustained improvement in profitability results in improvement in IWP’s credit metrics and liquidity position. A specific credit metric for a rating upgrade could be interest coverage higher than 2.8 times, on a sustained basis.

Negative factors – ICRA could downgrade the ratings further, if there is any deterioration in the working capital parameters and liquidity profile, or if the financial risk profile weakens due to decline in the profit margins on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of IWP.

About the company

IWP was incorporated in 1919 by Mr. H Gladstone, Mr. H Bateson and Mr. EH Ebray, who started processing *kattha* from a manufacturing unit at Izatnagar, Bareilly, Uttar Pradesh, in 1920. The current promoter—Mr. KK Mohta—acquired the company in 1980. Thereafter, the current management has been overseeing the activities of IWP. It has a production capacity of 4,000 MTPA of *kattha* and 1,350 MTPA of *cutch*, a by-product of *kattha* manufacturing. IWP has also started manufacturing and selling various spices. It began production at its Jammu unit from FY2021, with an additional capacity of 300 MTPA for *kattha*. The company sells its products under the brand name, ‘IWP’.

Key financial indicators (audited)

IWP Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	177.8	182.4	98.7
PAT	(1.0)	1.4	1.1
OPBDIT/OI	5.2%	5.8%	6.8%
PAT/OI	-0.6%	0.8%	1.1%
Total outside liabilities/Tangible net worth (times)	2.7x	2.5x	-
Total debt/OPBDIT (times)	8.4x	7.5x	-
Interest coverage (times)	1.4x	1.6x	1.6x

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Dec 27, 2023	Mar 13, 2023	Sep 09, 2022	Feb 28, 2022	Dec 09, 2021	Feb 02, 2021	Jul 14, 2020
1 Cash Credit	Long-Term	55.75	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)
2 Term Loan	Long-Term	-	-	-	-	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)
3 Letter of Credit	Short Term	16.50	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A2
4 Unallocated	Long-term/ Short-Term	5.27	-	[ICRA]BB+ (Stable) / [ICRA]A4+	[ICRA]BB+ (Stable) / [ICRA]A4+	[ICRA]BB+ (Stable) / [ICRA]A4+	[ICRA]BBB- (Negative) / [ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Working Capital	Simple
Short-term – Non-Fund-based	Very Simple
Long-term/ Short-term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	55.75	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	16.50	[ICRA]A4+
NA	Unallocated	NA	NA	NA	5.27	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
The Indian Wood Products Company Limited*	NA	Full Consolidation
Agro and Spice Trading Pte Ltd.	50%	Equity method

Source: Company, *parent company.

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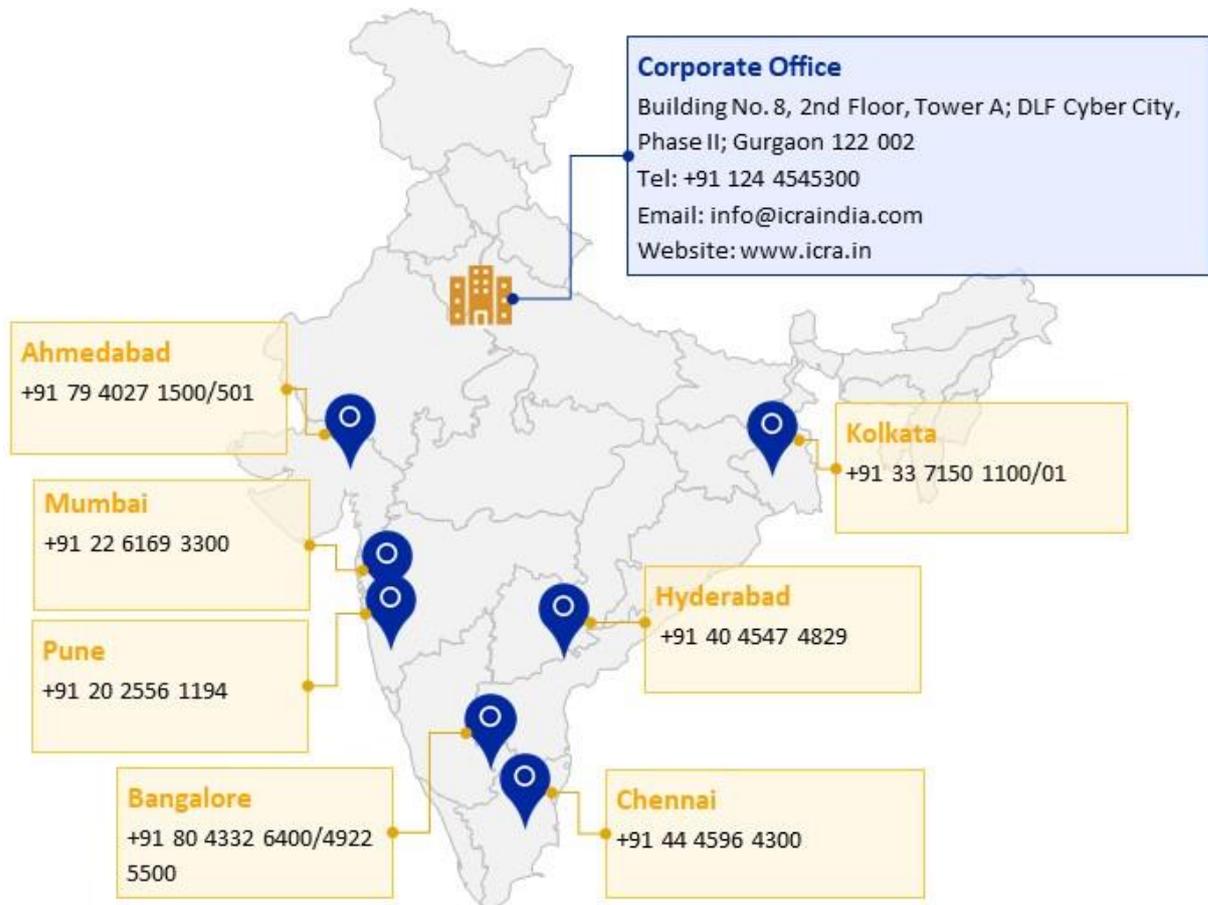
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