

Sri Krishna Timber Mart & Saw Mill

January 22, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	1.25	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Short Term Bank Facilities	9.95	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category
Total Bank Facilities	11.20 (Rs. Eleven Crore and Twenty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated January 31, 2020 placed the rating(s) of Sri Krishna Timber Mart & Saw Mill (SKTM) under the 'issuer non-cooperating' category as SKTM had failed to provide information for monitoring of the rating. SKTM continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated November 17, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

At the time of last rating on March 05, 2019 & January 31, 2020 the following were the rating strengths and weaknesses:

Key Rating Weakness

Small scale of operations

The operation of SKTM stood small measured by total operating income of Rs.12.91 crore in FY18 with low net worth base of Rs.1.77 crore as on March 31, 2018 as compared to other peers in this industry

Foreign exchange fluctuation risk

Import of timber by SKTM from various countries makes its profitability margins susceptible to foreign exchange rate fluctuations. However the firm has not made any major losses arising out of these foreign currency fluctuations in the past owing to forward sales contract facility with the bank.

Inherent cyclical risks associated with real estate sector and timber prices

The firm is exposed to a persistent sectorial concentration as majority of the firm's revenue are driven by the real estate sector. Further, any slowdown in the construction activity could impact the revenue growth. Furthermore, the firm's procurement is not against firm orders and its margins remain vulnerable to volatility in the prices of timber.

Proprietorship nature of business along with highly competitive and fragmented nature of timber industry

Proprietorship nature of its business limits the funding capability of SKTM to avail loans at cheaper rates from various sources of finance along with giving it the risk of capital withdrawal by proprietor on personal exigencies Further, SKTM faces stiff competition from a large number of unorganized players in the timber industry, given the low entry barriers and low value addition, which exerts pressure on the profitability of the firm.

Working capital intensive nature of operations

SKTM's working capital intensive nature of business operations is indicated by its higher operating cycle days of 157 days for FY18 as against 176 days for FY17. Although the purchases are backed by a letter of credit (LC) with a usage period of 180 days, the net working capital intensity of the firm remained high on account of high debtors following high sales made in the last quarter and thereby the average collection period increased to 47 days for FY18 as against 60 days for FY17. Furthermore, high amounts of inventory holding also led to higher operating cycle days for FY18. Since the firm is importing the timber from countries like Singapore and other African continents and has to depend on climatic conditions and political issues due to which the inventory period stood elongated during the review period. The average utilization of working capital of the firm remained 90 % for the last month ended January 31,2019.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

Decline in profitability margin

The PBILDT margin of the firm remained satisfactory, however, declined from 6.22% in FY17 to 4.57% in FY18 mainly on account of increase in cost of traded goods sold. Further, the PAT margin of the firm marginally declined from 1.28% in FY17 to 1.25% in FY18 on the back of decrease in operating profit although reduction in interest and finance charges.

On Going Capex

The firm is constructing a factory in Salem (dt) in order to increase the scale of operation of the firm. The total cost of the project is Rs.4.00 crore which would be funded through owner's contribution. The firm has already purchased two machines namely Horizontal Band saw machine and vertical band saw machines each costing Rs.0.10 crore and Rs.0.15crore respectively. The site is under construction, the area of land is 36,000 sq. ft. which is going to be utilized for construction of factory. As on date February 26, 2019 the firm has incurred 0.75 crore which is funded through promoter contribution. Hence the project is expected to be completed by month end of May, 2019.

Key Rating Strengths

Experienced Proprietor with established track record of the entity

The proprietor of SKTM, Mr. Balan, has an experience of nearly 30 years in Timber trading business. Prior to the start of SKTM in 1996, Mr. Balan had assisted in the timber business of his relative nearly for 10 years.

Increase in total operating income

The total operating income of SKTM improved from Rs. 11.29 crore in FY17 to Rs. 12.91crore in FY18 due to increase in trade sale of woods.

Improved capital structure and debt coverage indicators.

The capital structure of the firm marked by overall gearing ratio marginally improved from 3.68x as on March 31,2017 to 3.22x as on March 31,2018 due to lower working capital facilities utilization as on balance sheet date along with increase in networth due to accretion of profit, however remained leveraged. Further, the debt coverage indicators of the firms marked by total debt/GCA marginally improved from 41.88x in FY17 to 35.45x in FY18 due to marginal increase in cash accruals and overall decrease in total debts. Furthermore, the interest coverage ratio also marginally improved from 1.37x in FY17 to 1.57x in FY18 on account of decrease in interest and finance charges as on dates.

Applicable Criteria:

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology on Manufacturing Sector](#)

[Criteria for Short Term Instruments](#)

About the firm

Salem (TamilNadu) based, Sri Krishna Timber Mart & Saw Mill (SKTM) is a proprietorship firm established in 1998 by Mr.S Balan. SKTM is the retail and wholesale dealers of wood and wood products and is involved in sawing of timber logs into different sizes as per specifications of the customer. SKTM has a saw mill in salem, spread over an area of 1.5 acres with a capacity to saw upto 36,000 cubic feet of wooden logs. The firm sawed 41,000 cubic feet of wood in FY18. The customers of the firm include traders in timber products like Sri Vinayaka Timber Depo, R.K Traders and Lucky Timbers etc. SKTM procures the various types of wood like hardwood, kabukalli and green heart etc. from Singapore, South America and South Africa etc. The firm imports around 50% of total wood purchases and balance requirement of wood was sourced locally. The firm has not availed COVID-19 moratorium for its bank facilities.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	11.29	12.91
PBILDT	0.70	0.59
PAT	0.15	0.16
Overall Gearing (times)	3.68	3.22
Interest Coverage (times)	1.37	1.57

**A-Audited*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	1.25	CARE B; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-ILC/FLC	-	-	-	4.60	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Forward Contract	-	-	-	4.60	CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	0.75	CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	1.25	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (31-Jan-20)	1)CARE B+; Stable (05-Mar-19) 2)CARE B+; Stable (17-Apr-18)	-
2.	Non-fund-based - ST-ILC/FLC	ST	4.60	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (31-Jan-20)	1)CARE A4 (05-Mar-19) 2)CARE A4 (17-Apr-18)	-
3.	Non-fund-based - ST-Forward Contract	ST	4.60	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (31-Jan-20)	1)CARE A4 (05-Mar-19) 2)CARE A4 (17-Apr-18)	-
4.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	0.75	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (31-Jan-20)	1)CARE A4 (05-Mar-19) 2)CARE A4 (17-Apr-18)	-

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Information not available

Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	Simple
3.	Non-fund-based - ST-Forward Contract	Simple
4.	Non-fund-based - ST-ILC/FLC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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