

Sri Krishna Timber Mart and Saw Mill
March 05, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long – term Facilities	1.25	CARE B+ ; Stable (Single B Plus; Outlook : Stable)	Reaffirmed
Short term Facilities	9.95 (reduced from 10.75)	CARE A4 (A Four)	Reaffirmed
Total Facilities	11.20 (Rupees eleven crore and twenty lakh only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sri Krishna Timber Mart & Saw Mill continues to be tempered by its small scale of operations with decline in profitability margin, foreign exchange fluctuation risk, inherent cyclicity risks associated with real estate sector and timber price, proprietor nature of its business, and working capital intensive nature of operations. The ratings are further tempered on account of highly competitive and fragmented nature of its business and foreign exchange fluctuation risk.

The ratings, however, derive strength from its experienced promoter and improved capital structure and debt coverage indicators, increase in total operating income and decline in profitability margin.

Going forward, the ability of the firm to efficiently manage its working capital requirements along with its ability to improve its scale of operations, profitability margins and debt coverage indicators will be the key rating sensitivities.

Detailed description of the key rating drivers**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 cyclicity 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.

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

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

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.

Liquidity analysis

The current ratio of the firm declined from 2.41x as of March 31, 2017 to 2.29x as of March 31, 2018 mainly on account of increase in the total current liabilities and provisions related to operations .The cash and cash equivalents stood at Rs.0.03 crore in FY18 as against Rs.0.14 crore in FY17.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

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

About the Company

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. SKTM procures the various types of wood like hardwood, kabukalli and green heart etc from Singapore, South America and South Africa etc.

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

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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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
Non-fund-based - ST-ILC/FLC	-	-	-	4.60	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	4.60	CARE A4
Non-fund-based - ST-Bills Discounting / Bills Purchasing	-	-	-	0.75	CARE A4

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	1.25	CARE B+; Stable	1)CARE B+; Stable (17-Apr-18)	-	-	-
2.	Non-fund-based - ST-ILC/FLC	ST	4.60	CARE A4	1)CARE A4 (17-Apr-18)	-	-	-
3.	Non-fund-based - ST-Forward Contract	ST	4.60	CARE A4	1)CARE A4 (17-Apr-18)	-	-	-
4.	Non-fund-based - ST-Bills Discounting / Bills Purchasing	ST	0.75	CARE A4	1)CARE A4 (17-Apr-18)	-	-	-

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