Press Release

Sri Rajlakshmi Saw Mill

February 24, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 14.50 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' **(read as SMERA B)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the Rs. 14.50 crore bank facilities of Sri Rajlakshmi Saw Mill. The outlook is **'Stable'**.

The Bangalore-based Sri Rajlakshmi Saw Mill (SRSM), a partnership firm established in 2003 is engaged in the trading of timber. The firm imports 95 per cent of its raw material from Dubai and Singapore and the rest is sourced domestically. About 90 per cent of the revenue is generated from Karnataka and Tamil Nadu with the balance from other states.

Key Rating Drivers

Strengths

- **Experienced management**
  The partners, Mr Vinod Patel, Mr Shivji S Patel and Mr. Bharat Patel possess extensive experience in the abovementioned industry.

- **Moderate financial risk profile**
  The moderate financial risk profile is marked by interest coverage ratio (ICR) of 1.49 times in FY2016 and low gearing (debt-equity) of 0.01 times as on 31st March, 2016.

Weaknesses

- **Modest scale of operations**
  The scale of operations is modest with operating income of Rs.10.56 cr in FY2015-16. The revenue declined from Rs.17.31 crore in FY2015 to Rs.10.56 cr in FY2016 due to lower demand.

- **Working capital intensive operations**
  The operations are working capital intensive as reflected in the Gross current asset days of 403 on account of high inventory of 211 days and debtors of 140 days. As informed by the management, the firm utilises 50 per cent of its working capital limit.

- **Highly fragmented industry**
  The firm is exposed to intense market competition in timber trading with several small and large players.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that SRSM will maintain a Stable outlook in the medium term and benefit from its experienced management. The outlook may be revised to Positive if its scale of operations increases substantially while also improving operating profitability. Conversely, the outlook may be revised to Negative if the firm fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, SRSM reported net profit of Rs.0.09 cr on operating income of Rs.10.56 cr, as compared with profit after tax of Rs.0.14 cr on operating income of Rs.17.31 cr in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Trading Entities - https://www.smera.in/criteria-trading.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA A4
Proposed	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4

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ABOUT SMERA

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