

## Press Release

Sri Rajlakshmi Saw Mill

January 13, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
<b>Bank Ratings</b> <b>Loan</b>	12.50		ACUITE A4   Reaffirmed
<b>Bank Ratings</b> <b>Loan</b>	2.00	ACUITE B+   Stable   Reaffirmed	
<b>Total</b>	14.50	-	-

## Rating Rationale

Acuite has reaffirmed the long-term rating of 'ACUITE B+' (read as ACUITE B plus) and the short term rating of 'ACUITE A4' (read as ACUITE A four) on the Rs.14.50 crore bank facilities of Sri Rajlakshmi Saw Mill (SRSM). The outlook is 'Stable'.

The rating is reaffirmed on account of SRSM's experienced management and established track record of operations along with its moderate capital structure and coverage indicators. The liquidity remains adequate in the absence of debt-funded capex and low utilization of working capital limits. The rating is constrained on account of modest yet declining scale of operations and highly working capital intensive nature of operations. The firm's ability to improve its scale of operations in near to medium term along with any further deterioration in the working capital cycle will continue to remain a key rating sensitivity.

## About the Company

Sri Rajlakshmi Saw Mill (SRSM) established in the year 2003 is a Bangalore based partnership firm engaged into the timber trading business. The firm is promoted by Mr. Vinod Patel and three other partners and it has an operational track record of nearly two decades in the timber industry. It imports its raw material mainly from Indonesia, Malaysia and African countries. Major revenue of the firm is generated from Karnataka & Tamil Nadu and the customers are mainly from the wood and construction industry.

## Analytical Approach

Acuite has considered the standalone business and financial risk profiles of SRSM to arrive at this rating.

## Key Rating Drivers

### Strengths

#### Experienced management and established track record of operations

SRSM established in the year 2003 is engaged in timber trading business and it has an established track record of operations of nearly two decades. It is currently managed by Mr. Vinod Patel with support from other three partners. The partners of the firm have extensive experience in the aforementioned line of business. The long track record of operations and experience of management have helped the firm maintain a healthy relationship with its customers and suppliers.

Acuite believes that SRSM will continue to benefit from extensive experience of its management and established track record of operations.

## **Moderate financial risk profile**

SRSB's financial risk profile is moderate marked by net worth of Rs.2.77 crore as on 31 March, 2021 as against Rs.2.47 crore as on 31 March, 2020. The gearing (debt-equity) improved to 1.05 times as on 31 March, 2021 as against 1.53 times as on 31 March, 2020. The total debt of Rs.2.89 crore as on 31 March, 2021 consists of only unsecured loans from partners/promoters. The interest coverage ratio stood at 1.18 times for FY2021 as against 1.16 times for FY2020. The Net Cash Accruals to Total debt stood at 0.05 times for FY2021 and 0.03 times as on FY2020. The Total outside liabilities to Tangible net worth stood at 3.37 times for FY2021 as against 3.41 times in FY2020.

Acuité believes that SRSB's financial risk profile is expected to improve to some extent on account of its improving operating performance in near to medium term.

## **Weaknesses**

### **Modest yet declining scale of operations**

SRSB's revenue stood modest yet declining at Rs.13.45 crore in FY2021 as compared to Rs.15.49 crore in FY2020 and Rs.18.52 crore in FY2019 due to slowdown in the construction industry because of Covid-19 pandemic during FY'2021 and last months of FY2020 which impacted the overall demand of wood for various construction related activities. The operating margin of the firm stood at 5.88 percent in FY2021 as against 5.61 percent in FY2020 and the firm generated net profit of Rs.0.06 Crore in FY2021 as against Rs.0.10 Cr in FY2020.

For the current year FY2022, the firm has already achieved sales of around Rs.7.05 Crore as on Nov'21. Acuité believes that SRSB's ability to improve its scale of operations in near to medium term will remain a key rating sensitivity.

### **Working capital intensive nature of operations**

SRSB's operations are highly working capital intensive marked by Gross Current Assets (GCA) of 303 days for FY2021 and 232 days for FY2020. This is primarily on account of high inventory and debtor days. Inventory days stood at 105 days in FY2021 as against 63 days in FY2020 while the debtor days stood at 141 days in FY2021 as against 155 days in FY2020.

Acuité believes that any further deterioration in the working capital cycle will remain a key monitorable.

### **Highly competitive and fragmented nature of industry**

The firm operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm. However, the risk is mitigated to an extent due to the long track record of operations.

## **Rating Sensitivities**

- Improvement in scale of operations in near to medium term
- Any further deterioration in the working capital cycle

## **Material covenants**

None

## **Liquidity Position - Adequate**

SRSB generated cash accruals in the range of Rs.0.18 crore – Rs.0.13 crore during FY'19-20 to FY'20-21 against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.0.22 crore – Rs.0.31 crore for period FY2022-FY2024 against no repayment obligation for the same period. The company's operations are highly working capital intensive marked by gross current asset (GCA) days of 303 days for FY2021. Average bank limit utilization for 6 months' period ended Nov 2021 stood low at ~18.83 percent.

Current ratio stands at 1.73 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.0.41 crore in FY2021.

Acuité believes that SRSM's liquidity profile is likely to remain adequate over the medium term on account of adequate cash accruals against no debt obligations and low utilization of bank limits.

### Outlook: Stable

Acuité believes that SRSM will maintain a 'Stable' outlook over the medium term on account of its experienced management, established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' in case of a significant improvement in working capital operations while maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in the scale of operations or elongation in the working capital cycle.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	13.45	15.49
PAT	Rs. Cr.	0.06	0.10
PAT Margin	(%)	0.42	0.63
Total Debt/Tangible Net Worth	Times	1.05	1.53
PBDIT/Interest	Times	1.18	1.16

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Oct 2020	Letter of Credit	Short Term	12.50	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE B+   Stable (Upgraded from ACUITE B)
01 Aug 2019	Proposed Bank Facility	Short Term	4.00	ACUITE A4 (Issuer not co-operating*)
	Letter of Credit	Short Term	8.50	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	2.00	ACUITE B (Issuer not co-operating*)
04 May 2018	Cash Credit	Long Term	2.00	ACUITE B (Issuer not co-operating*)
	Letter of Credit	Short Term	8.50	ACUITE A4 (Issuer not co-operating*)

	Proposed Bank Facility	Short Term	4.00	ACUITE A4 (Issuer not co-operating*)
24 Feb 2017	Cash Credit	Long Term	2.00	ACUITE B   Stable (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Short Term	4.00	ACUITE A4 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+   Stable   Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A4   Reaffirmed

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### About Acuité Ratings & Research

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