

The Royal Timbers (Assigned)

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	1.50	SMERA B/Stable (Suspension Revoked; Rating Assigned)
Letter of Credit	6.00*	SMERA A4 (Suspension Revoked; Rating Assigned)

*BG as a sublimit to the extent of Rs.3.00 crore

SMERA has revoked the suspension of rating on the above mentioned bank facilities of The Royal Timbers (TRT) and assigned rating of '**SMERA B**' (read as **SMERA B**) and '**SMERA A4**'(read as **SMERA A four**). The outlook is '**Stable**'.

The ratings derive comfort from the experienced management, long track record of operations and hedging policy. However, the ratings are constrained by the below average financial risk profile, small scale of operations and working capital intensive business. The ratings also factor in the susceptibility of profit margins to fluctuations in raw material prices and fluctuating forex rates.

TRT, established in 1987 by Partners, Mr. V.V. Kumaravelu and Mrs. Niraimathi is engaged in the trading of timber. The firm imports timber and sells it in the local market and hence is exposed to currency fluctuation risk. However, it has a hedging policy to protect itself against exchange rate volatility. The firm has availed forward contract limit of Rs.3.00 crore for its import activities.

TRT's scale of operations is small with operating income of Rs.7.73 crore in FY2015 compared to Rs.4.97 crore in FY2014. Further, in FY2016, the firm registered revenues of approximate Rs.6.02 crore (Provisional). Timber trading is a fragmented and unorganised industry. The firm has below average financial risk profile marked by gearing of 1.29 times as on March 31, 2015. The coverage indicators of TRT stand at 1.69 times for FY2015. The net worth stood at Rs.1.43 crore as on 31 March, 2015.

The firm's operations are working capital intensive marked by gross current assets of 171 days. The average bank utilisation for six months ended March 2016 was 96 per cent. The margins are susceptible to fluctuations in raw material prices and forex rates. TRT imports timber from Burma, Malaysia, Australia, Padauk, African and South African countries. Thus it is exposed to forex fluctuation risk. The margins have declined from 9.32 percent in FY2014 to 7.75 times in FY2015.

Rating Sensitivity Factors

- Scaling up operations while maintaining comfortable liquidity position
- Availability of timber and government policy on import of timber

Outlook - Stable

SMERA believes that TRT will maintain a stable outlook over the medium term backed by the promoters' extensive experience in the industry. However, the financial position is expected to remain moderate over the medium term on account working capital intensive nature of business. The outlook may be revised to 'Positive' in case of improvement in the working capital management leading to better financial flexibility along with increase in net worth. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile due to higher working capital requirements.

Criteria applied to arrive at the ratings:

- Trading Entities

About the Firm

TRT, established in 1987 by partners, Mr. V.V. Kumaravelu and Mrs. Niraimathi is engaged in the trading of timber. The firm imports timber logs from Burma, Malaysia, Australia, Padauk, African and South African countries. It has a sawing capacity of ~200 cubic meters per month.

The firm reported profit after tax (PAT) of Rs.0.22 crore on net sales of Rs.6.02 crore in FY2016 (provisional) as against PAT of Rs.0.24 crore on net sales of Rs.7.73 crore in FY2015.

Rating History:

Date	Name of the Instruments	Amount (Rs.Crore)	Ratings		Rating Outlook
			Long Term	Short Term	
27 May, 2016	Cash Credit	1.00	SMERA B (Suspended)	-	Stable
	Proposed Cash Credit	0.50	SMERA B (Suspended)	-	Stable
	FLC/FCL/BG	6.00*	-	SMERA A4 (Suspended)	-
08 April, 2015	Cash Credit	1.00	SMERA B (Assigned)	-	Stable
	Proposed Cash Credit	0.50	SMERA B (Assigned)	-	Stable
	FLC/FCL/BG	6.00		SMERA A4 (Assigned)	-

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ABOUT SMERA

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