

Press Release

Sharda Timber Private Limited

June 13, 2017

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 33.50 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 33.50 crore bank facilities of Sharda Timber Private Limited. The outlook is '**Stable**'.

Sharda Timber Private Limited (STPL), incorporated in 2013, is a Haryana-based company engaged in the trading of timber. The company procures timber from Singapore, New Zealand and Malaysia and sells the same across India. The manufacturing facilities are located at Gandhinagar, Gujarat.

Key Rating Drivers

Strengths

- **Experienced management**

STPL is engaged in the trading of timber since 2013. Mr. Vikas Goyal and Mr. Krishan Kumar Goyal, the promoters have around three decades of experience in the aforementioned line of business.

- **Moderate financial risk profile**

The company has moderate financial risk profile marked by low gearing of 0.53 times for FY2016. The ICR stood at 1.73 times and DSCR at 1.53 times during the said period. The company reported ROCE of 19.07 per cent for FY2016 as against 20.47 per cent in the previous year. The EBITDA margins stood at 1.71 per cent for FY2016 as against 1.46 per cent for FY2015. The company has thin PAT margins of 0.54 per cent for FY2016 as against 0.35 per cent for FY2015. The TOL/TNW stood at a high of 3.48 times for FY2016. The unsecured loans of Rs. 2.03 crore are treated as quasi equity and the same are expected to remain in the business.

Weaknesses

- **Working capital intensive operations**

STPL's operations are working capital intensive with working capital cycle of 29 days in FY2016 as against 7 days in FY2015. The debtor days stood high at 107 for FY2016 as against 85 days for FY2015. The creditor days stood high at 92 for FY2016 as against 99 for FY2015.

- **Thin profitability margins**

STPL's margins are thin. The company registered PAT margins of 0.54 per cent for FY2016 as against 0.35 percent for FY2015. The EBITDA margins stood at 1.71 per cent for FY2016 compared to 1.46 per cent for FY2015 due to the trading nature of business and low value addition in the product.

- **Foreign exchange fluctuation risk**

STPL procures timber from Singapore, Malaysia and New Zealand and is thus exposed to foreign exchange fluctuation risk. The company mitigates this risk by booking forward contracts.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of Sharda Timber Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that STPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers more than expected growth in revenues while achieving improvement in profitability. Conversely the outlook may be revised to 'Negative' in case of decline in profitability, deterioration in the working capital cycle and high working capital requirements increasing pressure on margins.

About the Rated Entity - Key Financials

For FY2015-16, STPL reported profit after tax (PAT) of Rs.0.55 crore on operating income of Rs.102.30 crore, as compared with PAT of Rs.0.37 crore on operating income of Rs.106.99 crore in FY2014-15. The net worth stood at Rs.8.65 crore as on 31 March, 2016, compared to Rs.8.79 crore a year earlier.

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-Mar-2016	Cash Credit	Long Term	INR 5	SMERA BB- / Stable
	Letter of Credit	Short Term	INR 28.5	SMERA A4+

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	28.50	SMERA A4+

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