

Press Release

Mangalam Timbers

October 24, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.8.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long term rating to **'ACUITE B' (read as ACUITE B)** and the short term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs. 8.00 crore bank facilities of Mangalam Timbers (MT). The outlook is **'Stable'**.

Mangalam Timbers, established as a proprietorship firm in 1995 by Mr. Mahesh Ramji Patel is engaged in the manufacturing of plywood and trading of wooden logs. The firm imports timber from several countries such as Tanzania, Sudan, Brazil, Malaysia and Trinidad & Tobago for sale in the domestic market and for export to the Gulf.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management**

The proprietor, Mr. Mahesh Ramji Patel, has experience of over two decades in the timber industry. The extensive experience has helped the firm build long term relations with customers and suppliers.

Weaknesses

- **Small scale of operations**

The scale of operations is small. The operating income stood at Rs. 7.59 crore in FY2017-18 (Provisional) as against Rs.13.20 crore in FY2016-17. The firm operates in a highly competitive and fragmented timber trading business. Since the firm imports timber, it is exposed to forex fluctuation risk as also trade restrictions of various countries.

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross current assets (GCA) of 577 days in FY2017-18 (Provisional) compared to 284 days in FY2016-17. This is due to high inventory holding of 211 days and increased debtor days of 301 as on 31 March 2018. The average utilisation of cash credit facility is ~95 percent.

- **Below average financial risk profile**

The financial risk profile is below average marked by net worth of Rs. 5.26 crore as on 31 March, 2018 (Provisional) compared to Rs.4.93 crore as on 31 March, 2017. The gearing stood at 1.21 times as on 31 March, 2018 (Provisional) and 1.16 times as on 31 March, 2017. The interest coverage ratio stood comfortable at 1.18 times for FY2018 (Provisional) as against 1.29 times for FY2017. Further, Acuite believes that the financial risk profile will remain moderate in the absence of debt funded capex.

• Susceptibility of profit margins

The firm imports timber from Tanzania, Sudan, Malaysia, Brazil, and Trinidad & Tobago. As a result, the margins are susceptible to fluctuations in raw material prices and forex rates.

Outlook: Stable

Acuite believes that the outlook on MT's facilities will remain stable over the medium term owing to the extensive experience of its promoter. The financial position is expected to remain moderate over the medium term on account of its working capital intensive operations. The outlook may be revised to 'Positive' in case of improvement in the working capital leading to better financial flexibility along with increase in the net worth. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile because of higher working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	7.59	13.20	9.43
EBITDA	Rs. Cr.	0.86	0.90	0.70
PAT	Rs. Cr.	0.11	0.18	0.15
EBITDA Margin	(%)	11.29	6.85	7.40
PAT Margin	(%)	1.48	1.38	1.60
ROCE	(%)	8.02	9.47	8.30
Total Debt/Tangible Net Worth	Times	1.21	1.16	1.31
PBDIT/Interest	Times	1.18	1.29	1.33
Total Debt/PBDIT	Times	6.90	5.98	6.90
Gross Current Assets (Days)	Days	577	284	343

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Sep-2018	Cash Credit	Long Term	4.00	ACUITE B (Indicative)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Indicative)
	Proposed Long Term Loan	Long Term	1.50	ACUITE B (Indicative)
13-Oct-2017	Cash Credit	Long Term	4.00	ACUITE B / Stable (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Reaffirmed)

	Proposed Long Term Loan	Long Term	1.50	ACUITE B / Stable (Reaffirmed)
11-June- 2016	Cash Credit	Long Term	4.00	ACUITE B / Stable (Assigned)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	1.50	ACUITE B / Stable (Assigned)

***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	4.00	ACUITE B / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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