

Press Release

Mangalam Timbers

January 14, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on 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 profile of MT to arrive at the 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

- **Below average financial risk profile**

The financial risk profile is below average marked by low net worth, comfortable gearing and moderate coverage indicators. Networth stood at Rs. 6.81 crores as on March 31, 2019 against Rs. 5.26 crores as on March 31, 2018. Networth is supported through unsecured loans of Rs. 5.68 crore, which is subordinated to bank debt. The gearing improved to 0.67 times as on March 31, 2019 against 1.21 times as on March 31, 2018. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.24 times and 1.06 times for FY2019 respectively. Acuite believes that improvement in scale of operations and profitability will be crucial for the firm to improve its financial risk profile.

- **Working capital intensive nature of operations**

The working capital operations of the firm are intensive in nature marked by very high GCA days of 373 in FY2019 against 577 in FY2018. This is on account of high debtor days of 213 and inventory holding period of 126 days in FY2019. The working capital facilities remained almost fully utilized during the year.

- **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. The firm operates in a highly competitive and fragmented timber trading business further affecting its profitability.

Rating Sensitivities

- Insufficient cash accruals leading to increase in borrowings, weakening of capital structure and financial risk profile.
- Substantial increase in the scale of operations and profitability margins leading to improvement in

overall financial risk profile.

Material Covenants

None

Liquidity Position: Stretched

Liquidity of MT is stretched as evident by low net cash accruals and working capital intensive nature of operations. Net cash accruals stood at Rs. 0.10 – 0.20 crores during the last three years. The GCA days stood at 373 in FY2019. The working capital limits were fully utilized during the year. However, the liquidity is supported by unsecured loans from proprietor and his relatives to the tune of Rs. 5.68 crore as on March 31, 2019 which is subordinated to bank debt.

Outlook: Stable

Acuite believes that MT will continue to maintain a stable outlook over the near to medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company achieves sustained growth in revenues, higher-than-expected profitability while effectively managing its working capital operations. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 12.78 | 7.59 |
| PAT | Rs. Cr. | 0.20 | 0.11 |
| PAT Margin | (%) | 1.54 | 1.48 |
| Total Debt/Tangible Net Worth | Times | 0.67 | 1.21 |
| PBDIT/Interest | Times | 1.24 | 1.18 |

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

None

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing entities - <http://acuite.in/view-rating-criteria-4.htm>
- Trading entities - <http://acuite.in/view-rating-criteria-6.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. Crore) | Ratings/Outlook |
|-------------|-------------------------------|------------|--------------------|--------------------------------|
| 24-Oct-2018 | Cash Credit | Long Term | 4.00 | ACUITE B / Stable (Reaffirmed) |
| | Letter of Credit | Short Term | 2.50 | ACUTE A4 (Reaffirmed) |
| | Proposed Long Term Loan | Long Term | 1.50 | ACUITE B / Stable (Reaffirmed) |
| 28-Sep-2018 | Cash Credit | Long Term | 4.00 | ACUITE B (Indicative) |
| | Letter of Credit | Short Term | 2.50 | ACUTE 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 | ACUTE A4 (Reaffirmed) |
| | Proposed Long Term Loan | Long Term | 1.50 | ACUITE B / Stable (Reaffirmed) |

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 | ACUTE A4 (Reaffirmed) |
| Proposed Long Term Facility | Not Applicable | Not Applicable | Not Applicable | 1.50 | ACUITE B / Stable (Reaffirmed) |

Contacts

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|--|---|
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About Acuité Ratings & Research:

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