

Press Release

Mangalam Timbers

April 14, 2021

Rating Reaffirmed



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

Acuité 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 Cr bank facilities of Mangalam Timbers (MT). The outlook is '**Stable**'.

Mangalam Timbers is a Maharashtra based proprietorship firm established in the year 1995 by Mr. Mahesh Ramji Patel as a proprietorship firm. The firm is engaged in trading of plywood and wooden logs. The firm imports from several countries such as Tanzania, Sudan and Malaysia to name a few for the sales in the domestic market. Currently, the company is also engaged in trading of ceramics to European countries.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Established in the year 1995, MT has a long track record of operation of more than two decades in the aforementioned industry. The proprietor of the firm Mr. Mahesh Ramji Patel holds more than two decades of experience in the wood and wood products industry. He is ably assisted by a second line of management who holds experience of more than a decade in the aforementioned industry. The extensive experience of the proprietor and established track record of operation has helped the firm to maintain a healthy relationship with its customers and suppliers. Acuité believes that the firm will benefit from its experienced management, long track of operation and healthy relationship with its customers and suppliers.

Weaknesses

- **Working capital operation is intensive in nature**

MT's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 366 days in FY2020 as against 373 days in FY2019. This is inherent in the aforementioned industry due to the nature of the product. The inventory holding period stood at 116 days as on March 31, 2020 as against 126 days as on March 31, 2019. The inventory holding period remains high as it takes nearly about two-three months for procurement of raw material which are 100 percent imported. The debtor collection period remains high at 209 days as on March 31, 2020 as against 213 days as on March 31, 2019 due to delay in the realization of the payment. On the other hand the firm's credit payment period has improved to 52 days as on March 31, 2020 as against 107 days as on March 31, 2019. The average bank limit utilization stood high at around 91.22 percent for five months ended February, 2021, while its peak utilization was high at around 99.45 percent during the same period.

Acuité expects the working capital management to remain intensive over the medium term on

account of high debtor collection period.

- **Average financial risk profile**

MT's financial risk profile is average marked by low net worth, high gearing coupled with average debt protection metrics and coverage indicators. The firm's net worth stood at Rs.1.25Cr as on March 31, 2020 as against Rs.1.13Cr as on March 31, 2019. The company has followed aggressive financial policy in the past which can be marked with peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 10.66 times and 13.24 times in FY2018. The gearing and total outside liabilities to tangible net worth (TOL/TNW) stood at around 10.06 times and 11.55 times respectively as on March 31, 2020 as against 9.10 times and 12.18 times respectively as on March 31, 2019. The firm on the other hand generated cash accrals of Rs.0.23Cr in FY2020 as against Rs.0.22Cr in FY2019.

The revenue of the firm has improved marginally by around 3.64 percent to Rs.13.24Cr in FY2020. EBITDA in absolute term stood at Rs.1.11Cr in FY2020 as against Rs.1.10Cr in FY2019. The PAT of the firm stood at Rs.0.20Cr in FY2020. The firm's profitability margin has declined marginally in FY2020 as against FY2019. The operating margin and the PAT margin of the firm stood at 8.41 percent and 1.53 percent respectively in FY2020 as against 8.58 percent and 1.54 percent respectively in FY2019.

The moderate profitability level, coupled with moderate debt level, has led to average debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.02 times and 1.23 times respectively as against 0.02 times and 1.24 times in FY2019, respectively. The debt service coverage ratio stood 1.12 times in FY2020 as against 1.06 times in FY2019. The Debt-EBITDA ratio stands at 10.43times in FY2020 against 8.81times in FY2019.

In FY2021, the firm has been engaged in exporting the ceramics to European countries. The firm had exported a significant amount of ceramics and it is believed that firm will be benefitted from the same in the medium term.

Acuité believes that improvement in the scale of operations and profitability will be crucial for the firm to improve its financial risk profile.

Liquidity Position: Stretched

The firm has stretched liquidity marked by low net cash accrals to its maturing debt obligations. The firm generated cash accrals of Rs.0.23Cr in FY2020, while its' maturing debt obligation were in the range of Rs.0.05Cr to Rs.0.10Cr for the same period. The cash accrual of the firm is estimated to remain around Rs.0.20Cr to Rs.0.60Cr during 2021-23 against repayment obligations of around Rs.0.10Cr to Rs.0.50Cr during the same period. The firm's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 366 days in FY2020 as against 373 days in FY2019. The average bank limit utilization stood high at around 91.22 per cent for five months ended February, 2021. The firm maintains unencumbered cash and bank balances of Rs.0.12Cr as on 31 March 2020. The current ratio of the company stood at 1.67 times as on 31 March 2020 from 1.75 times as on March 31, 2019. However, the liquidity of the firm is supported by unsecured loan from the proprietor to the tune of Rs.5.54Cr.

Rating Sensitivities

- Substantial increase in the scale of operations and profitability margins leading to improvement in overall financial risk profile
- Any further stretch in the working capital management will lead to further weakening of the liquidity of the firm

Outlook: Stable

Acuité believes that the firm will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and moderate financial risk profile. The outlook may be revised to 'Positive', if the firm registers higher than expected growth in its revenue while improving its operating margins from its current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the firm registers lower than expected growth in revenues and profitability or in case of

deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	13.24	12.78
PAT	Rs. Cr.	0.20	0.20
PAT Margin	(%)	1.53	1.54
Total Debt/Tangible Net Worth	Times	10.06	9.10
PBDIT/Interest	Times	1.23	1.24

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Jan-2020	Cash Credit	Long Term	4.00	ACUITE B/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	1.50	ACUITE B/Stable (Reaffirmed)
24-Oct-2018	Cash Credit	Long Term	4.00	ACUITE B/Stable (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	1.50	ACUITE B/Stable (Reaffirmed)
28-Sept-2018	Cash Credit	Long Term	4.00	ACUITE B (Indicative)
	Letter of Credit	Short Term	2.50	ACUITE A4 (Indicative)
	Proposed Long Term Bank Facility	Long Term	1.50	ACUITE B (Indicative)

***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)
Term Loan- GECL	Not Applicable	Not Applicable	Not Applicable	1.04	ACUITE B/Stable (Assigned)
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.46 (Revised from Rs.1.50Cr)	ACUITE B/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50*	ACUITE A4 (Reaffirmed)

*Both side interchangeable within a limit of Rs. 1.50Cr

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About Acuité Ratings & Research:

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