

Shiv Timber Industries: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Term Loan	2.75	SMERA B/Stable (Assigned)
Cash Credit	2.00	SMERA B/Stable (Assigned)
Letter of Credit	5.00	SMERA A4 (Assigned)
Proposed Cash Credit	1.00	SMERA B/Stable (Assigned)
Proposed Letter of Credit	4.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B**' (read as SMERA B) and '**SMERA A4**' (read as SMERA A four) to the above mentioned bank facilities of Shiv Timber Industries (STI). The outlook is 'Stable'.

The ratings are supported by the firm's improving margins and average financial risk profile. However, the ratings are constrained by the small scale of operations, working capital intensive business and susceptibility of profit margins to fluctuations in raw material prices and forex rates. The ratings also factor in the highly fragmented nature of the timber industry.

The Tamil Nadu-based STI, a partnership firm, commenced operations in August 2013. The operating margins of the firm have improved from 4.17 per cent in FY2015 to 6.05 per cent in FY2016 (provisional). The firm has an average financial risk profile marked by gearing of 1.25 times as on 31 March, 2016 (provisional). The interest coverage ratio stands at 1.43 times for FY2016. The net worth of the firm stands at Rs.3.90 crore as on 31 March, 2016.

However, STI registered operating income of Rs.19.93 crore in FY2016 (provisional), a decline from Rs.21.93 crore in FY2015. The operations are working capital intensive marked by gross current assets of 168 days in FY2016 due to high inventory holding of around 119 days. Further, the average bank utilisation for six months ended August 2016 stands at 97 percent. STI's margins are susceptible to fluctuations in raw material prices and forex rates. The firm imports timber from Malaysia, Singapore, Hong Kong, Myanmar, and Indonesia and hence is exposed to forex fluctuation risk.

STI operates in a highly fragmented and unorganised timber trading industry with intense market competition.

Rating Sensitivity Factors

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

Outlook - Stable

SMERA believes that STI will maintain a stable outlook. The outlook may be revised to 'Positive' in case of improvement in working capital management leading to better financial flexibility along with improvement in capital structure. Conversely, the outlook may be revised to 'Negative' if the financial risk profile deteriorates due to higher than expected debt funded working capital requirements.

Criteria applied to arrive at the ratings:

- Trading Entities

About the Firm

STI, established in August 2013 is a partnership firm promoted by Mr. M. Sakhivel and Mr. S. Tamilvel to trade in timber. The firm's godown is located at Tirunelveli, Tamil Nadu, near Tuticorin port that facilitates easy import of timber.

For FY2015-16 (provisional), STI reported net profit of Rs.0.35 crore on operating income of Rs.19.93 crore as against net profit of Rs.0.39 crore on operating income of Rs.21.93 crore in FY2014-15.

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ABOUT SMERA

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