Abirami Timber Depot: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	1.00	SMERA B/Stable (Assigned)
Cheque Purchase	0.05	SMERA A4 (Assigned)
Foreign 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 Abirami Timber Depot (ATD). The outlook is **'Stable'.**

The ratings are supported by the experienced management and moderate financial risk profile. However, the ratings are constrained by the firm's small scale of operations, working capital intensive business, 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 and proprietorship constitution of the firm.

The Tamil Nadu-based ATD, a proprietorship firm, commenced operations in 2010. The proprietor, Mr. J. Murugavel has more than two decades of experience in timber trading. The firm has moderate financial risk profile marked by gearing of 1.43 times as on 31 March, 2016 (provisional). The ICR stands at 1.58 times for FY2016 (provisional). The TOL/TNW stands at 3.14 times as on 31 March 2016.

However, ATD registered operating income of Rs.8.46 crore in FY2016 (provisional), an increase from Rs.4.92 crore in FY2015 due to increase in orders. The operations are working capital intensive marked by gross current assets of 182 days in FY2016 due to high inventory holding of around 119 days. Further, the average bank utilisation stands at 88 per cent. ATD's margins are susceptible to fluctuations in raw material prices and forex rates.

The operating margins have declined to 1.85 per cent in FY2016 compared to 2.87 per cent in FY2015. ATD procures timber from Malaysia, Africa, South-America and France and hence its un-hedged imports are exposed to forex fluctuation risk.

The firm operates in a highly fragmented and unorganised timber industry with intense market competition. Besides, the proprietorship firm is susceptible to capital withdrawal at will.

Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Availability of timber and government policy on import of timber
- Movement in capital structure and coverage indicators
- Efficient working capital management

Outlook – Stable

SMERA believes that ATD will maintain a stable outlook over the medium term. The outlook may be revised to 'Positive' in case the firm registers consistent growth in revenues while sustaining improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile owing to higher than envisaged working capital borrowings or in case of steep decline in the revenues and profit margins.

Criteria applied to arrive at the ratings:

- Trading Entities

About the Firm

ATD, established in 2010 is a proprietorship firm promoted by Mr. J. Murugavel to trade in timber. The firm's godown is located at Senkottai, Tamil Nadu, near Tuticorin port that facilitates easy import of timber.

For FY2015-16 (provisional), ATD reported net profit of Rs.0.06 crore on operating income of Rs.8.46 crore as against net profit of Rs.0.06 crore on operating income of Rs.4.92 crore in FY2014-15.

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ABOUT SMERA

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