

Press Release

Abirami Timber Depot

August 17, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 5.05 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating of '**ACUITE B**' (read as **ACUITE B**) to '**ACUITE B-**' (read as **ACUITE B minus**) and reaffirmed the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.5.05 crore bank facilities of Abirami Timber Depot (ATD). The outlook is '**Stable**'.

Downgrade in rating reflects deterioration in its business risk profile marked by significant decline in revenues and stretch in working capital cycle mainly due to high inventory levels leading to full utilization of bank limits.

Established in 2010, Abirami Timber Depot (ATD) is a Tenkasi (Tamil Nadu) based proprietorship firm which is promoted by J.Murugavel. It is engaged in trading of timber. The firm imports timber from Malaysia, South America, Africa, and Singapore among others. It sells timber to customers in south India. The firm has its godown at Senkottai, Tamil Nadu, near Tuticorin port which facilitates easy import and storage of timber.

Key Rating Drivers

Strengths

- **Experienced management**

ATD was promoted by Mr. Murugavel and is in the said line of business since 1990. Prior to ATD, he used to look after the business of his brother, which is also into timber trading. Acuite believes that, ATD will benefit from its experienced management over the medium term.

- **Moderate financial risk profile**

Financial risk profile of the firm is moderate marked by moderate gearing (debt/Equity), Total outside liabilities to total net worth and moderate debt protection metrics. Gearing is moderate at 1.65 times (Provisional) as on 31 March, 2018 as against 1.26 times as on 31 March, 2017. Its net worth stood at Rs.1.34 crore (Provisional) as on 31 March, 2018 as against Rs.1.26 crore in the previous year. TOLTNW is moderate at 3.75 times (Provisional) as on 31 March, 2018 as against 3.07 times as on 31 March, 2017. Debt protection metrics is marked by moderate interest coverage ratio and net cash accruals to total debt (NCATD) ratio of 1.77 times and 0.04 times respectively in FY2018 on provisional basis. Acuite believes that, financial risk profile is would remain moderate in the absence of any major debt funded capital expenditure.

Weaknesses

- **Decline in revenues and fluctuations in profitability**

Revenues of the firm is modest and declined from Rs.8.46 crore in FY2016 to Rs.3.88 crore in FY2017 and there on improved marginally to Rs.4.66 crore (Provisional) in FY2018. Demonetisation coupled with introduction of GST has impacted the revenue of the firm. Further, operating margins of the firm are fluctuating for the last three years through FY2018. ATD reported operating margins of 3.28

percent in FY2018 (Provisional) as against 4.89 percent in FY2017 and 1.88 percent in FY2016. Further, operating margins are also exposed to forex rate fluctuation, as the firm imports 90 percent of raw materials from different countries like from Malaysia, South America, Africa, and Singapore among others. Acuite believes that, increase in scale of operations while maintaining stable operating margins would be the key rating sensitivity factor over the medium term.

• Working capital intensive operations

Operations of the firm are working capital intensive marked by high Gross Current Assets (GCA) of 403 days (Provisional) in FY2018 as against 396 days in FY2017. This is mainly on account of high inventory maintenance of 258 days in FY2018 and 296 days in FY2017. Further, debtors days stood high at 136 days in FY2018 as against 110 days in FY2017. As a result, its working capital limits have been fully utilized for the last six months through June 2018. Acuite believes that operations of ATD will continue to be working capital intensive on account of extended credit terms to customers coupled with high inventory management.

• Highly fragmented and competitive industry

ATD operates in a highly fragmented and competitive industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

Analytical Approach

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

Outlook: Stable

Acuite believes that the outlook of ATD will remain 'Stable' over the medium term on account of the experience of the proprietor in the industry. The outlook may be revised to 'Positive' if scale of operations improves while maintaining stable profitability. Conversely, the outlook may be revised to 'Negative' if any there is further stretch in working capital cycle leading to deterioration of financial risk profile and liquidity

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	4.66	3.88	8.46
EBITDA	Rs. Cr.	0.15	0.19	0.16
PAT	Rs. Cr.	0.08	0.07	0.06
EBITDA Margin	(%)	3.28	4.89	1.88
PAT Margin	(%)	1.71	1.69	0.73
ROCE	(%)	6.00	7.48	12.37
Total Debt/Tangible Net Worth	Times	1.65	1.26	1.40
PBDIT/Interest	Times	1.77	1.47	1.56
Total Debt/PBDIT	Times	11.13	7.01	9.02
Gross Current Assets (Days)	Days	403	396	196

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

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

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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
12 January, 2018	Cash Credit	Long Term	1.00	ACUITE B (Issuer non Co-operative)
	Bill Discounting	Short Term	0.05	ACUITE A4 (Issuer non Co-operative)
	Letter of Credit	Long Term	4.00	ACUITE A4 (Issuer non Co-operative)
11 November, 2016	Cash Credit	Long Term	1.00	ACUITE B/Stable (Assigned)
	Bill Discounting	Short Term	0.05	ACUITE A4 (Assigned)
	Term Loan	Long Term	4.00	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE B- / Stable (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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