

Press Release

Saraswathy Timbers and Saw Mills (STSM)

19 January, 2017

Rating Action

Total Bank Facilities Rated*	Rs.9.20 Cr
Long Term Rating	SMERA B/Stable (Assigned and Reaffirmed)
Short Term Rating	SMERA A4 (Assigned and Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned and reaffirmed the long term rating to **'SMERA B' (read as SMERA B)** and the short term rating to **'SMERA A4' (read as SMERA A four)** on the Rs.9.20 crore bank facilities of Saraswathy Timbers and Saw Mills (STSM). The outlook is **'Stable'**.

MKVK Group established in 1988, is a Tamil Nadu-based group engaged in the trading of timber. The timber logs are imported from South America, Malaysia, and other South-African countries and sold in the local market.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced management: STSM, established in 1988, is a part of MKVKG engaged in the trading of timber. The partners of the firm are Mr. K. Paulrajan, Mr. K.P. Thangaprabu, Mr. K.P. Nithyanandarajan and Mr. N. Panmathi possess more than two decades of experience in timber trading.

Moderate scale of operations: The group revenue has improved to Rs.37.73 crore in FY2015-16 as against Rs.35.90 crore in FY2014-15. Further, the group has achieved ~Rs.24.00 crore from April 2016 – October 2016.

Weaknesses:

Below average financial risk profile: The financial risk profile remained below average with tangible net worth of Rs.10.72 crore and gearing (debt-to-equity ratio) of 2.33 times as on March 31, 2016 compared to tangible net worth of Rs.10.61 crore and gearing of 1.54 times as on March 31, 2015. The interest coverage ratio stood at 1.18 times in FY2015-16 compared to 1.15 times in FY2014-15. TOL/TNW has deteriorated to 3.34 times as on 31st March 2016 from 2.31 times as on 31st March 2015.

Working capital intensive business: The group operations are working capital intensive, as reflected in its gross current assets of around 371 days as on March 31, 2016 as against 275 days in the previous year. This was on account of increase in inventory and debtor days of 207 and 164 in FY2016 respectively.

Susceptibility of profit margins to raw material prices and forex fluctuations: The operating margins have declined to 8.33 percent in FY2016 compared to 8.97 percent in FY2015 due to

increase in raw material prices. The group is also exposed to foreign exchange fluctuation risk for un-hedge imports.

Analytical approach: SMERA has consolidated the business and financial risk profiles of MKV Kandasamy Nadar (MKVKN), MKVK Timber Industries (MKVKTI), Saraswathy Timbers and Saw Mills (STSM) and Samy Saw Mills (SSM), the four partnership firms referred to as MKVK Group on account of the similarity in the line of business, financial fungibility and common management.

Applicable Criteria

- Consolidation of companies: <https://www.smera.in/criteria-consolidation.htm>
- Trading Entities: <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the group will continue to maintain a 'Stable' outlook over the medium term owing to the extensive experience of its management. The outlook may be revised to 'Positive', if the group achieves sustained improvement in profit margins while maintaining healthy revenue growth. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profit margins or deterioration in the capital structure or coverage indicators.

About the firm

STSM, established in 1988, is a part of MKVKG engaged in trading of timber. The firm is located at Pavoorchatram, Tamil Nadu. The partners of the firm are Mr. M.K.V.K. Paulrajan, Mr. P. Thangaprabu, Mr. P. Nithyanandarajan and Mr. N. Panmathi

About the Group

MKVK Group established in 1988, is a Tamil Nadu-based group engaged in the trading of timber. The group comprises four firms viz. MKV Kandasamy Nadar (MKVKN), MKVK Timber Industries (MKVKTI), Saraswathy Timbers and Saw Mills (STSM) and Samy Saw Mills (SSM) and all of them are engaged in import of timber. The timber logs are imported from Malaysia, Ivory Coast, Dubai and Singapore which are sold in the domestic market.

On consolidated basis, MKVK Group reported net profit after tax (PAT) of Rs.0.44 crore on operating income of Rs.37.73 crore in FY2015-16 as compared to PAT of Rs.0.51 crore on operating income of Rs.35.90 crore in the previous year. The net worth stood at Rs.10.72 as on March 31, 2016 compared to Rs.10.61 crore a year earlier.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	2.00	SMERA B/Stable (Assigned and Reaffirmed)	02 Feb	SMERA B/Stable (Reaffirmed)	24 Mar	SMERA B/Stable (Assigned)	NA	NA
Letter of Credit	ST	7.10	SMERA A4 (Assigned and Reaffirmed)	02 Feb	SMERA A4 (Reaffirmed)	24 Mar	SMERA A4 (Assigned)	NA	NA
Bank Guarantee	ST	0.10	SMERA A4 (Reaffirmed)	02 Feb	SMERA A4 (Assigned)	NA	NA	NA	NA
Bill Discounting	ST	NA	NA	NA	NA	24 Mar	SMERA A4 (Assigned)	NA	NA

***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	NA	NA	NA	2.00	SMERA B/Stable (Assigned and Reaffirmed)
Letter of Credit	NA	NA	NA	7.10	SMERA A4 (Assigned and Reaffirmed)
Bank Guarantee	NA	NA	NA	0.10 (Revised from 0.20)	SMERA A4 (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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