

Press Release**Saraswathy Timbers and Saw Mills (STSM)**

March 12, 2018

Rating Reaffirmed

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

** Refer Annexure for details***Rating Rationale**

SMERA has reaffirmed long-term rating of '**SMERA B' (read as SMERA B)** and short term rating of '**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**'.

About the firm

STSM a partnership firm, established in 1988 by Mr. M.K.V.K. Paulrajan, Mrs. P. Vasanthi, Mr. P. Nithyanandarajan, Mr. P. Thangaprabu and Mr. N. Dinesh Kandasamy is a part of MKVKG engaged in trading of timber. The firm is located at Pavoorchatram, Tamil Nadu.

Key Rating Drivers**Strengths****Established track record of operations and experienced management**

Tamil Nadu-based MKVKN, established in the year 1988 is a part of MKVK group promoted by Mr. M.K.V.K. Paulrajan, Mr. P. Nithayanandrajana and other partners, engaged in the trading of timber. The partners of the firms have three decades of experience in timber trading business.

Weaknesses**Average Financial Risk profile**

The group has average financial risk profile marked by moderate networth of Rs.11.29 crore as on 31st March 2017 as against Rs.10.72 crore in the previous year. The adjusted gearing stood at 1.67 times as on 31st March 2017 as against 2.33 times in the previous year. The interest coverage ratio stood at 1.17 times for FY2017 as against 1.18 times in the previous year. TOL/TNW stood at 2.22 times as on 31st March 2017 as against 3.34 times in the previous year. The NCA/TD stood at 0.02 times for FY2017 and FY2016.

Working Capital intensive nature of operations

The group has working capital intensive nature of operations marked by the GCA days of 318 days in FY2017 and 405 days in FY2016. This is mainly on account of high debtor days of 193 in FY2017 compared to 164 in FY2016 and inventory days of 120 in FY2017 compared to 203 in FY2016.

Partnership constitution

Partnership constitution of the group renders it vulnerable to withdrawal of capital although the same has not been observed in the past.

Profit margins are susceptible to volatility in raw material prices and for-ex fluctuation

The major raw material procured by the group is timber logs and the prices of the raw materials are highly

volatile in nature. The group imports timber logs from Malaysia, Singapore, Dubai and Ivory Coast and the same is un-hedged. Hence profitability is exposed to for-ex fluctuation risk. The PAT margin of the group remains thin at 1.12 percent for the in FY16-17 against 1.18 percent in FY15-16, due to trading nature of business.

Analytical Approach

SMERA has considered the consolidated business and financial risk profiles of M.K.V.K. Group to arrive at the rating.

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 Rated Entity - Key Financials (Consolidated)

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.15	38.30	37.02
EBITDA	Rs. Cr.	3.23	3.14	3.22
PAT	Rs. Cr.	0.40	0.44	0.51
EBITDA Margin	(%)	8.93	8.20	8.69
PAT Margin	(%)	1.12	1.16	1.39
ROCE	(%)	11.09	12.38	18.26
Total Debt/Tangible Net Worth	Times	1.67	2.33	1.54
PBDIT/Interest	Times	1.17	1.18	1.15
Total Debt/PBDIT	Times	5.11	3.34	2.31
Gross Current Assets (Days)	Days	318	405	303

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, the M.K.V.K. Group has reported net profit after tax (PAT) of Rs.0.40 crore on operating income of Rs.36.15 crore in FY16-17 as compared to PAT of Rs.0.44 crore on operating income of Rs.38.30 crore in the previous year.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Mar-2015	Cash Credit	Long Term	1.00	SMERA B/ Stable (Assigned)
	Bills Discounting	Short Term	0.10	SMERA A4/ Stable (Assigned)
	Letter of Credit	Short Term	8.00	SMERA A4/ Stable (Assigned)
02-Feb-2016	Cash Credit	Long Term	1.90	SMERA B / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.20	SMERA A4/ Stable (Assigned)
	Letter of Credit	Short Term	7.00	SMERA A4/ Stable (Reaffirmed)
19-Jan-2017	Cash Credit	Long Term	2.00	SMERA B / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.10	SMERA A4/ Stable (Reaffirmed)
	Letter of Credit	Short Term	7.10	SMERA A4/ Stable (Reaffirmed)

***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	2.00	SMERA B / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A4
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.10	SMERA A4

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ABOUT SMERA

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