

Press Release

A.K.Veneers Private Limited

April 20, 2017

Rating Assigned

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|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 15.00 Cr. |
| Long Term Rating | SMERA BB- / Outlook: Stable |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 15.00 crore bank facilities of A.K.Veneers Private Limited. The outlook is '**Stable**'.

A.K. Veneers Private Limited (A.K. Veneers) is a Mangalore-based company established in 1994 by Mr Mohammed Ahmed (Managing Director). The company is engaged in the manufacturing of wood veneers and plywood.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

A.K. Veneers was established in 1994. The company benefits from its long track record of operations. The Directors, Mr Mohammed Ahmed, Mr Naushad Abdul Khader and Mr Nazim Abdul Khader have experience of over a decade in the aforementioned industry.

- **Healthy financial risk profile**

The healthy financial risk profile is marked by interest coverage ratio of 3.13 times in FY2016 and low gearing of 0.53 times as on 31st March, 2016. The Net worth stood at Rs.6.20 cr as on March 31, 2016. The return of capital employed stood at 13.03 per cent as on 31st March, 2016 with DSCR at 1.90 times in FY2016.

Weaknesses

- **Small scale of operations**

Despite the long track record of business of over two decades, the operations continue to remain small. The revenue declined from Rs.17.44 cr in FY2014 to Rs.14.09 cr in FY2016. As informed by the management, the company registered revenue of Rs.26.46 cr in FY2016-17 (Apr-Jan). The increase in revenue is due to increase in orders.

- **Working capital intensive operations**

The operations are working capital intensive marked by gross current assets days of 256 in FY2016 on account of high inventory of 119 days and debtors of 113 in FY2016. As informed by the banker, the company utilises 100 per cent of its working capital limit.

- **Exposure to raw material price fluctuation**

The company's operating margins are exposed to fluctuations in the prices of major raw material - timber logs.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that A.K. Veneers will maintain a 'Stable' outlook in the medium term and continue to benefit from its long track record of operation and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while maintaining operating profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, A.K. Veneers reported net profit of Rs.0.28 cr on operating income of Rs.14.09 cr, as compared to profit after tax of Rs.0.41 cr on operating income of Rs.15.52 cr in FY2014-15.

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>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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)

Not Applicable

*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 | 3.00 | SMERA BB- / Stable |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 2.00 | SMERA BB- / Stable |
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4 |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4 |

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ABOUT SMERA

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