

Press Release

Coastal Chip Boards And Lams Private Limited

May 12, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+** (read as SMERA B plus) and short term rating of '**SMERA A4** (read as SMERA A four) on the Rs. 12.00 crore bank facilities of Coastal Chip Boards And Lams Private Limited. The outlook is '**Stable**'.

Coastal Chip Board and Lams Private Limited (Coastal Chip) is engaged in the manufacture of wood products, cork, straw and other material used for interior designing and decoration.

Key Rating Drivers

Strengths

- **Experienced management**

Coastal Chip was established in 2011. The company was promoted by Mr Mohammed Ahmed, Mr Naushad Abdul Khader and Mr Nazim Abdul Khader amongst others. The Directors possess over two decades of experience in the aforementioned industry.

- **Moderate financial risk profile**

The moderate financial risk profile is marked by interest coverage ratio of 3.02 times in FY2016 and high gearing of 3.64 times due to the non-interest bearing unsecured loan of Rs.8.84 cr. The net worth of the company stood at Rs.3.33 cr as on March 31, 2016. The return of capital employed stood at 8.23 per cent as on 31st March, 2016 and DSCR stood at 2.69 times in FY2016.

Weaknesses

- **Small scale of operations**

The company registered operating income of Rs.12.38 cr for FY2016 against Rs.13.83 cr for FY2015 and Rs.13.95 cr for FY2014. The company achieved revenue of Rs.13.78 cr from April 2016 to January 2017.

- **Working capital intensive operations**

The operations of the company are working capital intensive marked by gross current assets days of 418 in FY2016 on account of high inventory of 162 days and debtors of 189. As informed by the management, the company utilises 94 per cent of its working capital limits.

- **Volatility in raw material prices**

The main raw material for the company is timber logs, the prices of which are highly volatile by nature. The operating margins are exposed to raw material fluctuations. Further, the company imports ~50.00 per cent of its material and any adverse fluctuations in foreign exchange rates may affect profitability

Analytical Approach

SMERA has taken a standalone view of the rated entity.

Outlook: Stable

SMERA believes that the company will maintain a 'Stable' outlook in the medium term and continue to benefit from its long track record of operations 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, the company reported net profit of Rs.0.48 cr on operating income of Rs.12.38 cr, as compared with net profit of Rs.0.48 cr on operating income of Rs.13.83 cr in FY2014-15. The net worth stood at Rs.3.33 cr as on March 31, 2016 as against Rs.2.85 cr a year earlier.

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	4.00	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA A4

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ABOUT SMERA

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