

Press Release

MYSORE TIMBER TRADING COMPANY

24 November, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.19.50 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) and short -term rating of '**SMERA A4 (read as SMERA A four)**' on the Rs.19.50 crore bank facilities of MYSORE TIMBER TRADING COMPNAY. The outlook is 'Stable'.

The Bengaluru-based Mysore Timber Trading Company (MTTC) is a partnership firm established in 1974 by Mr. Babulal Patel and family. The firm is engaged in the processing, cutting and selling of timber. The firm imports timber from Indonesia, Malaysia, Africa, Thailand and USA and sells the same in Bengaluru, Mumbai, Delhi among others.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

MTTC was established in 1974 by Mr. Babulal Patel and family. The partners have over four decades of experience in timber trading. This has helped build long term relations with customers and suppliers and benefit from repeat business.

Weaknesses

Modest scale of operations, highly competitive and fragmented timber industry

MTTC has modest scale of operations with revenue of Rs.17.88 crore in FY2017 (Provisional) compared to Rs.16.55 crore in FY2016 and Rs.23.01 crore in FY2015. The revenue declined in FY2016 mainly on account of ban imposed by the Myanmar Government on export of timber. Further, the presence of the firm in a highly fragmented and competitive timber industry due to low entry barriers restricts its pricing flexibility.

Profit margins susceptible to volatility in timber prices and forex rates

Since the firm imports timber from Indonesia, Malaysia, Africa, Thailand and US, its margins are exposed to fluctuations in raw material prices and forex rates (for the unhedged portion). Further, the firm is also exposed to unfavorable regulatory changes in these countries. The operating margin stood at 3.30 per cent in FY2017 (Provisional) compared to 3.16 per cent in FY2016.

Moderate financial risk profile

MTTC has low networth of Rs.5.46 crore as on 31 March, 2017 (Provisional) compared to Rs.5.30 crore in the previous year. The gearing stood at 1.17 times as on 31 March, 2017. The total debt of Rs.6.35 crore mainly comprises working capital borrowings of Rs.4.62 crore and unsecured loan from partners of Rs.1.73 crore. The TOL /TNW ratio stood high at 4.20 times as on 31 March, 2017 mainly on account of high creditors of Rs.16.58 crore. The interest coverage ratio stood low at 1.32 times in FY2017 (Provisional).

Working capital intensive operations

MTTC has high Gross current assets (GCA) of 456 days in FY2017 (Provisional) against 321 days in FY2016. The GCA days stood high mainly on account of high inventory holding period of 301 days and debtor days of 156 in FY2017. Further, the firm has fully utilised its working capital limits during the six months ended September 2017.

SMERA believes that the efficient working capital management will be crucial to the firm in maintaining a stable credit profile.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of MTTC.

Outlook: Stable

SMERA expects MTTC to maintain a stable outlook backed by its promoter's experience. However, the financial position is expected to remain average over the medium term on account of the working capital intensive nature of business. The outlook may be revised to 'Positive' in case of improvement in working capital management leading to better financial flexibility along with increase in net worth. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile because of higher working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), MTTC reported PAT (profit after tax) of Rs.0.14 crore on operating income of Rs.17.88 crore compared with PAT of Rs.0.14 crore on operating income of Rs.16.55 crore in the previous year. The net worth stood at Rs.5.46 crore as on 31 March, 2017 compared to Rs.5.30 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.smerra.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Trading Entities - <https://www.smerra.in/criteria-trading.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA B / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.50	SMERA A4

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ABOUT SMERA

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