

Press Release

Mysore Timber Trading Company

November 12, 2018



Rating Assigned and Reaffirmed

Total Bank Facilities Rated*	Rs. 20.50 Cr. (Enhanced from Rs.19.50 Cr.)
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs. 19.50 crore bank facilities of Mysore Timber Trading Company. The outlook is '**Stable**'.

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs. 1.00 crore bank facilities of Mysore Timber Trading Company. 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 trading of timber. The firm imports timber from Indonesia, Malaysia, Africa, Thailand and USA and sells the same in Bengaluru, Mumbai, Delhi among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MTTC to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and long track record of operations

MTTC was established in 1974 by Mr. Babulal Patel and family. The partners have about four decades of experience in the timber processing and trading business. This helped the firm to establish its position in the domestic market and has enabled the firm to leverage its relations with suppliers and customers. The improving revenues are supported by moderate off-take from residential and industrial segments. This has helped in revenue growth from Rs.24.10 crore in FY2018 against Rs.17.89 crore in FY2017 and Rs.16.55 crore in FY2016. Acuité believes that the firm continues to benefit from the partners' established presence in improving its business risk profile over the medium term.

• Moderate financial risk profile

The financial risk profile is moderate marked by comfortable gearing, moderate total outside liabilities to total net worth and moderate interest coverage ratio. Gearing stood comfortable at 0.78 times as on 31 March, 2018 as against 1.17 times as on 31 March, 2017. TOL/TNW is moderate at 2.77 times as on 31 March, 2018 as against 4.20 times as on 31 March, 2017. Net worth stood at 6.05 times as on 31 March, 2018 as against 5.46 times as on 31 March, 2017. Of the total debt of Rs.4.69 crore, long term debt constitutes Rs.0.02 crore, unsecured loan of Rs.1.13 crore and short term debt of Rs.3.54 crore. Interest coverage ratio is moderate at 1.34 times in FY2018 as against 1.32 times in FY2017. Debt Service Coverage Ratio (DSCR) is moderate at 1.22 times in FY2018 as against 1.32 times in FY2017. Acuité believes that the financial risk profile of the company is expected to be at similar levels over the medium term in the absence of major debt funded capital structure.

Weaknesses

- **Working capital intensive operations**

The operations of the company are working capital intensive marked by high Gross Current Assets (GCA) at 253 days in FY2018 as against 453 days in FY2017. This is mainly due to high debtors at about 138 days in FY2018 as against 156 days in FY2017. Though inventory days improved, it stood high at 109 days in FY2018 as against 301 days in FY2017. Further, working capital limits are fully utilised for the last six months through September 2018. Further, operations are expected to be working capital intensive over the medium term due to stretch in debtors and moderate inventory management.

- **Modest scale of operations and decline in profitability**

MTTC has modest scale of operations with revenue of Rs.24.10 crore in FY2018 as against Rs.17.88 crore in FY2017 and Rs.16.55 crore in FY2016. Further, from April 2018 to September 2018, the company reported revenues of Rs.7.00 crore. Further, operating margins declined to 2.02 percent in FY2018 as against 3.30 percent in FY2017 due to high competition in the industry. 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. Further, the firm is also exposed to unfavorable regulatory changes in these countries.

- **Competitive and fragmented industry**

The firm is exposed to intense competition in the industry from several small and large players on account of limited entry barriers, limiting the bargaining power with the customers as well as suppliers.

Outlook: Stable

Acuité believes that the outlook of the MTTC will remain 'Stable' over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital requirements leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.10	17.89	16.55
EBITDA	Rs. Cr.	0.49	0.59	0.52
PAT	Rs. Cr.	0.12	0.14	0.14
EBITDA Margin	(%)	2.02	3.30	3.16
PAT Margin	(%)	0.52	0.76	0.83
ROCE	(%)	6.49	7.58	7.78
Total Debt/Tangible Net Worth	Times	0.78	1.17	0.90
PBDIT/Interest	Times	1.34	1.32	1.30
Total Debt/PBDIT	Times	5.78	6.94	5.52
Gross Current Assets (Days)	Days	253	453	323

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

None

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Nov-2017	Cash Credit	Long Term	4.00	ACUITE B / Stable (Assigned)
	Letter of Credit	Long Term	15.50	ACUITE A4 (Assigned)

*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	ACUITE B / Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	15.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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