

Press Release

KAMAL TIMBERS INDIA PRIVATE LIMITED

15 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 31.00 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 double B plus) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 31.00 crore bank facilities of KAMAL TIMBERS INDIA PRIVATE LIMITED. The outlook is '**Stable**'.

Kamal Timbers India Private Limited was established as a proprietorship firm in 1991 in the name of Kamal timbers and Lotus Timber & Plywood and later in 2005 was converted to a private limited entity by Mr. Kamal Chawla and Mrs. Alka Chawla. The company is engaged in the processing and trading of timber. KTIPL imports timber from South East Asian countries such as Singapore, Malaysia and Hong Kong, New Zealand and South Carolina and processes it in its saw mills. KTIPL has three units at Haryana, Gujarat and New Delhi.

Key Rating Drivers

Strengths

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

The partnership firm was established in 1991 and converted to a private limited company in 2005 by Mr. Kamal Chawla and Mrs. Alka Chawla. The day-to-day operations are led by Mr. Kamal Chawla who has more than two decades of experience in the timber industry.

- **Healthy business risk profile**

KTIPL has healthy business risk profile marked by operating income of Rs. 94.93 crore in FY2017 as against Rs. 82.40 crore in FY2016. Further, KTIPL has booked revenue of Rs. 83.55 crore for the period April to December 2017 (Provisional). The EBITDA margins stood at 3.52 percent in FY2017 as against 3.84 percent in FY2016 owing to increase in raw material and selling cost. The PAT margins stood at 1.26 percent in FY2017 as against 1.24 percent in FY2016. Majority of the sales are in Delhi, Gujarat and Faridabad. KTIPL has healthy order book position of Rs. 18.78 crore which provides future revenue visibility.

- **Moderate financial risk profile**

KTIPL has moderate financial risk profile marked by net worth of Rs. 9.01 crore as on 31 March, 2017 as against Rs. 7.90 crore as on 31 March, 2016. The gearing (total debt/equity ratio) stood at 1.91 times as on 31 March, 2017 as against 2.06 times as on 31 March, 2016. The total debt of Rs. 17.19 crore outstanding as on 31 March, 2017 comprises term loan of Rs. 2.39 crore, unsecured loan of Rs. 3.57 crore from promoters and Rs. 8.25 crore as working capital borrowings from the bank. The Interest Coverage ratio stood at 2.38 times for FY2017 as compared to 2.20 times for FY2016. The net cash accruals stood at Rs. 1.50 crore in FY2017 as against Rs. 1.34 crores in FY2016. SMERA believes that the company will maintain its financial risk profile by generating healthy net cash accruals in the absence of debt funded capex plan.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by GCA days of 153 in FY2017 as against 124 days in FY2016. This is majorly on account of high inventory holding period of 74 days and debtor days of 77 in FY2017. SMERA believes that the operations (processing of timbers) will continue to remain working capital intensive. The average bank limit utilisation stood at 91 percent for the last six months ended December 2017. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

- **Profit margins susceptible to volatility in timber prices and forex rates**

The company imports timber from New Zealand and Singapore and hence its profitability margins are exposed to fluctuations in raw material prices and forex rates (for the unhedged portion). Further, the company is also exposed to unfavorable regulatory changes in these countries and the highly fragmented and competitive timber industry. Besides, the low entry barriers restrict the pricing flexibility and affects profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of KTIPL to arrive at the rating.

Outlook: Stable

SMERA believes that KTIPL will maintain a stable outlook on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers substantial growth in scale of operations while achieving healthy profit margins and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profitability and deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	94.93	82.40	59.67
EBITDA	Rs. Cr.	3.35	3.16	2.68
PAT	Rs. Cr.	1.11	0.89	0.61
EBITDA Margin	(%)	3.52	3.84	4.49
PAT Margin	(%)	1.17	1.08	1.03
ROCE	(%)	12.64	13.26	23.86
Total Debt/Tangible Net Worth	Times	1.91	2.07	2.75
PBDIT/Interest	Times	2.38	2.20	1.97
Total Debt/PBDIT	Times	4.81	4.78	5.21
Gross Current Assets (Days)	Days	153	124	226

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

Brickworks Ratings in its press release dated November 20, 2017 inter alia has stated the following, "India Ratings and Research (Ind-Ra) has migrated Kamal Timbers India Private Limited's (KTP) Long-Term Issuer Rating to the non-cooperating category. The issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. Therefore, investors and other users are advised to take appropriate caution while using these ratings. The rating will now appear as 'IND BB(ISSUER NOT COOPERATING)' on the agency's website."

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.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)

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	6.00	SMERA BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA A4+

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ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

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