

Press Release

VENKATESHWARA WOOD AND MANUFACTURING INDUSTRIES

March 09, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.50 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 plus**) and short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs. 6.50 crore bank facilities of VENKATESHWARA WOOD AND MANUFACTURING INDUSTRIES. The outlook is '**Stable**'.

Venkateshwara Woods and Manufacturing Industries (VWMI) established in the year 1989 is a Karnataka-based partnership firm promoted by Mr. Harilal V Patel, Mr. Hitesh V Patel, Mrs. Maniben H Patel and Mr. Tulsidas H Patel. The firm is engaged in import and trading of timber. The timber logs are imported from Malaysia, Indonesia, Myanmar and other African Countries. The firm trades in teak, padauk wood and sal wood. The firm caters to domestic clients mainly in Bengaluru.

Key Rating Drivers

Strengths

- **Experienced management and moderate track record**

Venkateshwara Woods and Manufacturing Industries established in the year 1989 is a Karnataka-based partnership firm promoted by Mr. Harilal V Patel, Mr. Hitesh V Patel, Mrs. Maniben H Patel and Mr. Tulsidas H Patel. The partners have more than a two decade of experience in the timber trading business.

Weaknesses

- **Small scale of operation**

The scale of operations remains low, with an operating income of Rs.9.07 crore in FY2017 declined from Rs.9.82 crore in FY2016. This was on account of fewer orders during the financial year and also due to the effect of demonetisation. The firm has registered revenue of around Rs.6.48 crore for FY2017-18 (provisional) till December 2017.

- **Below average financial risk profile**

The firm's financial risk profile is marked by low networth, comfortable gearing and modest debt protection metrics. The net worth levels stood at Rs.2.27 crore as on 31 March 2017 compared to net worth of Rs.1.73 crore as on 31st March 2016. The gearing (debt-equity ratio) stood at 0.50 times as on 31st March 2017 compared to gearing of 0.29 times as on 31st March 2016. Total debt of Rs.1.41 crore comprises of long term borrowings of Rs.0.12 crore and unsecured loans from relatives of Rs.1.03 crore. TOL/TNW levels are moderate at 1.17 times for FY2017 as against 0.67 times in the previous year. Interest coverage ratio stood at 1.63 times for FY2017. NCA/TD stands at 0.07 times in FY2017.

- **Working capital intensive operations**

The firm's operations are working capital intensive, as reflected by high gross current assets (GCA) of 167 days as on March 31, 2017 as against 103 days in the previous year. The reason for the same is due to increase in inventory days to 63 days as on 31st March 2017 as against 37 days in the previous year. The debtor days stood at 68 days as on 31st March 2017 as against 58 days in the previous year.

• **Profit margins are susceptible to volatility in raw material prices and forex fluctuation**

The major raw material procured by the firm is timber logs which account ~93 percent, and the prices of the raw materials are highly volatile in nature. The firm imports timber logs from Malaysia, Indonesia, Myanmar and other African Countries and the same is un-hedged. Hence profitability is exposed to forex fluctuation risk. The PAT margin of the firm remains thin at less than 1 percent for the period under study, due to trading nature of business. The PAT margin stands at 0.56 percent in FY2017 against 0.50 percent in FY2016.

Analytical Approach

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

Outlook: Stable

SMERA believes that the outlook on VWMI will remain 'Stable' over the medium term on account of the experience of the management and moderate operational track record. The outlook may be revised to 'Positive' if the firm reports substantial growth in revenue. Conversely, the outlook may be revised to 'Negative' in case of further decline in revenue or deterioration in financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	9.07	9.82	0.00
EBITDA	Rs. Cr.	0.16	0.00	0.00
PAT	Rs. Cr.	0.05	0.00	0.00
EBITDA Margin	(%)	1.81	1.78	3.49
PAT Margin	(%)	0.56	0.50	0.68
ROCE	(%)	6.06	4.88	10.80
Total Debt/Tangible Net Worth	Times	0.50	0.29	1.67
PBDIT/Interest	Times	1.63	1.50	1.28
Total Debt/PBDIT	Times	5.83	2.57	10.87
Gross Current Assets (Days)	Days	167	103	327

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

Not Applicable

Any other information

Not Applicable

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	1.50	SMERA B+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4

Contacts

Analytical	Rating Desk
Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in Deep Majumder Analyst - Rating Operations Tel: 022-67141147 deep.majumder@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

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.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.