

Press Release

Sri Vasudeva Sawmill And Wood Works

May 15, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.50 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. 8.50 crore bank facilities of Sri Vasudeva Sawmill And Wood Works. The outlook is '**Stable**'.

Vellore (Tamil Nadu) based Sri Vasudeva Saw Mill & Wood Works (SVSMWW) was established in 1980 as a proprietary firm by Mr. V. Vardharajan, Mr. A. C. Vasudevan, Ms. Girija and Mr. V Devarajan. Later, the constitution has been changed to partnership firm in 2012. The firm is engaged in processing and trading of timber and procures 100 percent of its raw material (wooden logs) from Africa and South American countries. The firm caters to domestic clients mainly to local construction and furniture manufacturers in Tamil Nadu and southern states of India. Further the firm has installed capacity of 100 cubic meters/ month.

Key Rating Drivers

Strengths

- **Experienced Management**

SVSMWW is engaged in the processing and trading of timber since 1980. Mr. V. Vardharajan, Mr. A. C. Vasudevan, Ms. Girija and Mr. V Devarajan, the promoters have around three decades of experience in the aforementioned line of business.

- **Healthy relations with customers**

As the company is into the industry more than a decade it has helped the company to establish healthy association with customers based in domestic market.

Weaknesses

- **Working Capital Intensive nature of operations**

The firm has working capital intensive operations with GCA of 401 days in FY2017 which mainly constitutes of inventory holding of 302 days and debtors of 108 days in FY2017. The company also has high creditor days of 276 days in FY2017 which has significantly increased from 77 days in FY2016.

- **Foreign exchange fluctuation risk**

The company imports mainly from Africa and South American countries. The prices of these raw materials are highly volatile in nature. The firm's margins are thus susceptible to movement in raw material price and forex rates.

- **Partnership constitution of the firm**

Since SVSMWW is a partnership firm, it is susceptible to risk of capital withdrawal.

- **Average financial risk profile**

The firm has an average financial risk profile marked by gearing (debt-to-equity) stood at 1.69 times as on 31 March 2017 as compared to 2.43 times as on 31 March 2016. Interest coverage ratio stood at 1.04 times

in FY2017 as against 1.08 times in FY2016. Tangible net worth of a firm stood low at Rs.1.14 cr as on 31 March 2017 as compared to Rs.1.00 crore as on 31 March 2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of SVSMWW to arrive at the rating.

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	5.84	7.30	6.62
EBITDA	Rs. Cr.	0.41	0.41	0.29
PAT	Rs. Cr.	0.01	0.03	0.02
EBITDA Margin	(%)	7.09	5.62	4.32
PAT Margin	(%)	0.19	0.36	0.30
ROCE	(%)	13.92	16.28	24.09
Total Debt/Tangible Net Worth	Times	1.69	2.43	2.10
PBDIT/Interest	Times	1.04	1.08	1.13
Total Debt/PBDIT	Times	4.24	4.92	5.56
Gross Current Assets (Days)	Days	401	305	370

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>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.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. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA B+ / Stable
Letter of credit	Not Applicable	Not	Not	5.50	SMERA A4

		Applicable	Applicable		
Proposed	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA B+ / Stable

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ABOUT SMERA

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