

Press Release

Mittal Timber Store

September 24, 2019

Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	ACUITE B/ Stable (Downgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE B+**' (read as **ACUITE B plus**) and reaffirmed the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.15.00 crore bank facilities of MITTAL TIMBER STORE (MTS). The outlook is '**Stable**'.

The reason for downgrade is decline in revenue and profitability. The decline in revenue is due to high working capital requirement during purchase after GST implication, which directly effects the day-to-day operations of the firm. The decline in profitability is due to high raw material cost for importing timber. The working capital cycle of MTS increased during the period marked by Gross Current Assets (GCA) days of 237 for FY2019 (Provisional) as against 151 for FY2018. The inventory days have increased to 98 days in FY2019 (Provisional) as against 60 days in the previous year. The debtor's collection period have increased to 136 days in FY2019 (Provisional) as against 90 days in FY2018.

Established in 1975, Mittal Timber Store is a proprietary concern promoted by Mr. Krishan Mittal. The firm is engaged in import, sawing and whole sale trading of timber by import of wood from Malaysia, Indonesia, Nigeria, South Africa, Canada, New Zealand and other countries. The firm has its branch office and warehouse at Gandhidham (Gujarat), where the imported timbers are stored. Apart from this, the firm has its head office at Karnal. The timber imported in the shape of logs is either sawed into different sizes at Gandhidham by the firm's sawmills or sold on high seas basis or sawn timber.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced partners and established Track record of operations**

MTS has an established track record spanning over three decades in the timber industry. The concern is promoted by Mr. Krishna Mittal, who possesses an extensive experience in the timber industry by virtue of his association with Mittal Ocean Trade Private Limited and is ably supported by Mr. Rajiv Mittal in the day-to-day operations. The extensive industry experience of the proprietor has enabled the concern to establish a healthy relationship with various customers and suppliers.

Weaknesses

- **Weak financial risk profile**

The financial risk profile of the firm is weak marked by low net worth of Rs.5.16 crore as on March 31, 2019 (Provisional) compared to Rs.5.05 crore in the previous year. The gearing stood at 0.43 times as on 31 March, 2019 (Provisional) against 0.23 times as on 31 March, 2018 due to infusion of unsecured loan from director and relatives. The total debt of Rs.2.21 crore as on March 31, 2019 (Provisional) consist of Rs.0.07 crore of long term loan, short term borrowing of Rs.1.58 crore and unsecured loan of Rs.0.56 crore. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.86 times as on 31 March, 2019 (Provisional) as against 2.48 times in the previous year. The interest coverage ratio stood at 1.28 times in FY2019 (Provisional) as against 1.19 times in FY2018. The net cash accruals to total debt (NCA/TD) stood low at 0.09 times for FY2019 (Provisional) as against 0.17 times in the previous year.

• Profit margins susceptible to volatility in timber prices

The firm imports 100 per cent of its timber log requirements from Malaysia, New Zealand and Singapore among other countries. Hence, the profitability is exposed to regulatory changes in these countries. Besides, the firm is exposed to highly fragmented and competitive timber industry due to low entry barriers restricting its pricing flexibility and affecting profitability. The same is reflected by the profit margin (PAT) which stood at 0.58 per cent in FY2019 (Provisional) compared to 0.45 per cent in FY2018.

Liquidity position

MTS has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated net cash accruals of Rs.0.19 crore in FY2019 (Provisional), while there is no significant maturity obligation. The cash accruals of the company are estimated to remain in the range of Rs.0.28 crore – Rs.0.34 crore for the FY2020-2022, while its repayment obligations are estimated to be around Rs.0.07 crore in FY2020. Acuite believes that the liquidity of the company is likely to remain stressed over the medium term on account of low net cash accruals with high repayments over the medium term.

Outlook: Stable

Acuite believes that the firm will maintain a 'Stable' outlook and will continue to benefit over the medium term owing to the extensive experience of the promoters in the timber trading business. The outlook may be revised to 'Positive', if the company achieves significant growth in revenue and improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile on account of higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	27.37	37.19	45.54
EBITDA	Rs. Cr.	0.71	1.08	1.07
PAT	Rs. Cr.	0.16	0.17	0.17
EBITDA Margin	(%)	2.59	2.91	2.35
PAT Margin	(%)	0.58	0.45	0.38
ROCE	(%)	12.41	18.89	14.32
Total Debt/Tangible Net Worth	Times	0.43	0.23	0.37
PBDIT/Interest	Times	1.28	1.19	1.18
Total Debt/PBDIT	Times	2.52	0.93	1.46
Gross Current Assets (Days)	Days	237	151	118

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
11-July-2019	Cash credit	Long term	3.00	ACUITE B+ (Indicative)
	Letter of Credit	Short term	12.00	ACUITE A4 (Indicative)
16-May-2018	Cash credit	Long term	3.00	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short term	12.00	ACUITE A4 (Assigned)

*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	3.00	ACUITE B/Stable (Downgraded from ACUITE B+/Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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