

Press Release

Sri Jalaram Timber Depot

July 27, 2018



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 5.50 Crore
Long Term Rating	ACUITE B-/Stable (Downgraded from ACUITE B)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long term rating from '**ACUITE B**' (**read as ACUITE B**) to '**ACUITE B-**' (**read as ACUITE B minus**) and reaffirmed short term rating of '**ACUITE A4**' (**read as ACUITE A four**) to the Rs.5.50 crore bank facilities of Sri Jalaram Timber Depot (SJTD). The outlook is '**Stable**'.

The downgrade reflects decline in operating income and further stretch in working capital cycle.

SJTD is a Tamil Nadu-based partnership firm established in 1999 by Mr. Narayan Bhanji Patel and Mr. Madhavji Narayan Patel. The firm is engaged in trading of timber. The business was taken over by Mr. Mavji Narayan Patel, Mrs. Lakshmi M. Patel, Mr. Deepak M. Rangani and Mrs. Harsha D. Rangani from 1 April, 2009 after the retirement of Mr. Narayan Bhanji Patel and Mr. Madhavji Narayan Patel. The firm imports timber from Indonesia, Malaysia, Africa and Ghana. The firm trades in Teek, Oak, Merbau and Kwila. The firm caters to domestic clients mainly in Tamil Nadu and also in other southern states of India.

Key Rating Drivers

Strengths

- **Long track record of operation along with experienced management**

SJTD is a Tamil Nadu-based partnership firm established in 1999. The current partners possess experience of around a decade in timber trading business.

Weaknesses

- **Small scale of operations in highly competitive and fragmented industry**

SJTD operates on a small scale. The operating income fell by CAGR (17.43) percent for FY2016-2018. The operating income was Rs.5.13 crore in FY2018 (Provisional) and Rs.5.42 crore in FY2017 as against Rs.9.11 crore in FY2016. The firm operates on a highly competitive timber trading business with large number of players. However, the operating margin of the firm improved to 5.13 percent in FY2018 (Provisional) and 5.29 percent in FY2017 as against 2.73 percent in FY2016. The PAT margins are thin at 0.57 percent in FY2018 (Provisional) which improved from 0.12 percent in FY2017 and 0.17 percent in FY2016. The reason for PAT margins to be so thin is because of majority of the revenue being generated from trading activity wherein low margins are inherent due to less value addition in trading. Acuité believes that the group will sustain its large scale of operations on the back of established track record of operations in the timber industry.

- **Working capital intensive nature of operations**

The operations of firm are working capital intensive marked by Gross Current Assets (GCAs) of 334 days in FY2018 (Provisional) as against 238 days for FY2017. This is on account of high inventory days of 227 in FY2018 (Provisional) as against 218 days in FY2017. The average cash credit utilisation for the past six months stood at ~90 percent. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Analytical Approach

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

Outlook: Stable

Acuité believes SJTD to maintain a 'Stable' outlook over the medium term owing to its promoters' experience. The outlook may be revised to 'Positive' if there is improvement in working capital management leading to better financial flexibility along with increase in scale of operations. Conversely, the outlook may be revised to 'Negative' if there is significant deterioration in working capital requirements or further decline in the scale of operations.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	5.13	5.42	9.11
EBITDA	Rs. Cr.	0.26	0.29	0.25
PAT	Rs. Cr.	0.03	0.01	0.02
EBITDA Margin	(%)	5.13	5.29	2.73
PAT Margin	(%)	0.57	0.12	0.17
ROCE	(%)	8.67	9.31	10.88
Total Debt/Tangible Net Worth	Times	1.10	1.16	1.49
PBDIT/Interest	Times	1.19	1.08	1.06
Total Debt/PBDIT	Times	5.72	5.24	6.88
Gross Current Assets (Days)	Days	334	238	182

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>
- 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. Crore)	Ratings/Outlook
19-May-2017	Cash Credit	Long Term	1.50	ACUITE B/Stable (Assigned)
	Inland Bills Negotiation	Short Term	1.00	ACUITE A4 (Assigned)
	Foreign Letter of Credit	Short Term	3.00	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	1.50	ACUITE B-/Stable (Downgraded)
Inland Bills Negotiation	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)
Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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