

Press Release

Geetha Saw Mill

August 29, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.5.25 Cr.
Long Term Rating	ACUITE B/Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE B**' (read as **ACUITE B**) and short-term rating of '**ACUITE A4** (read as **ACUITE A four**)' on the Rs.5.25 crore bank facilities of Geetha Saw Mill (GSM). The outlook is '**Stable**'.

GSM was established as a Partnership firm in 1983 by Mr. Meghji Manji Patel, Mrs. Hansaben Meghji Patel and Mr. Gautham Meghji Patel. The firm's saw mill is located at Vellore (Tamil Nadu) with an installed capacity of 750 cubic meters/ month. The firm is engaged in the import of round timber logs which are subsequently sawn and sized at its saw mill into various commercial sizes as per the requirement of its customers. The firm procures majority of its raw material requirements from Malaysia and Indonesia, and sells them in domestic market (mainly South India) to wholesalers, construction companies and individual customers.

Gayathri Timbers (GT) is an associate concern of Geetha Saw Mill promoted by Mr. Vijay Kumar's, son of Mr. Meghji Manji Patel, which is involved in the same line of business.

Analytical Approach

Acuite has not consolidated the financial and business risk profiles of Geetha Saw Mill with Gayathri Timbers, as the team has not received the detailed financials of GT. Also, there are no major purchase / sale transactions between Geetha Saw Mill and Gayathri Timbers except advances given to its associate.

Key Rating Drivers

Strengths:

- **Extensive experience of promoters in the timber-processing and trading business**
Mr. Meghji Manji Patel (Partner) has an experience of around three decades in the timber-processing and trading business, which has helped the firm to establish its position in the domestic market and has enabled the firm to leverage its established relationship with suppliers and customers. It helped in improving the revenues at compound annual growth rate of 12.16 percent over three years through FY2018 (Provisional). Acuite believes that the firm is expected to benefit from the partners' established presence and the relationship with the stakeholders in maintaining a stable business risk profile over the medium term.

Weaknesses:

- **Below average financial profile**
The firm's financial risk profile is marked by modest net worth, high total outside liabilities to total net worth (TOL/TNW), moderate gearing (debt-to-equity), and below-average debt protection metrics. The net worth is modest at about Rs.1.04 crore (Provisional) as on March 31, 2018, which is low on account of modest accretion to reserves. TOL/TNW is high at 5.35 times (Provisional) as on March 31, 2018 (Provisional) against 6.63 times in FY2017. The gearing is moderate at 1.57 times as on March 31, 2018 (Provisional) against 3.26 times in FY2017. The debt protection metrics are below average marked by interest coverage ratio (ICR) and net

cash accruals to total debt (NCA/TD) at 1.33 times and 0.07 times respectively for FY2018(Provisional). Acuite believes that the financial risk profile is expected to be at similar levels over the medium term, due to modest scale of operations and low cash accruals.

- **Modest scale of operations and low profitability**

The firm has reported revenues of Rs.8.17 crore in FY2018 (Provisional) as against Rs.5.51 crore in FY2017 marking a growth of ~48 percent. However, its existing scale of operations remains modest in the timber industry. Also, operating and net margins were reported low at 3.06 percent and 1.32 percent respectively for FY2018 (Provisional). Acuite believes that the operation continues to be at similar levels as the management is not planning for any significant enhancement in limits in the near term.

- **High working capital intensive business**

The firm offers a liberal credit period of 60-90 days to its dealers; it imports timber under letter of credit with usance credit period of 180 days; however, the same is required to be paid by way of discounting to the vendors. It maintains raw material inventory of 3-4 months to meet diverse customer requirements. As a result, the operations of the firm remained working capital intensive in nature with high Gross Current Asset (GCA) days of over 262 during last three years ending FY2018 (Provisional); resulted in high limit utilisation of its working capital limits at around 90-95 percent for past six months ended with July 2018. Acuite believes that with the increasing scale of operations, the working capital requirements are expected to increase further over the medium term.

Outlook: Stable

Acuite believes that GSM will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters in the timber business. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability along with an improved working capital management strengthens the financial risk profile. The outlook may be revised to 'Negative' if order inflow is lower than expected, or if a stretch in the working capital cycle, weakens the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	8.17	5.51	5.79
EBITDA	Rs. Cr.	0.25	0.24	0.17
PAT	Rs. Cr.	0.11	0.09	0.05
EBITDA Margin	(%)	3.06	4.28	2.99
PAT Margin	(%)	1.32	1.60	0.82
ROCE	(%)	17.51	14.63	15.34
Total Debt/Tangible Net Worth	Times	1.57	3.26	4.73
PBDIT/Interest	Times	1.33	1.31	1.35
Total Debt/PBDIT	Times	3.31	4.82	9.99
Gross Current Assets (Days)	Days	262	283	271

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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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	1.25	ACUITE B/ Stable (Assigned)
Foreign Letter of Credit (FLC)	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Assigned)

Contacts

Analytical	Rating Desk
<p>Sri Hari Adari Head - Rating Operations Tel: +91 40-4027 4590 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Sr. Rating Analyst - Rating Operations Tel: +91 40-4005 5452 bhavanisankar.oruganti@acuiterratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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