



## Press Release

### Arunesh Saw Mills

October 17, 2018

### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 8.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.8.00 crore bank facilities of ARUNESH SAW MILLS (ASM). The outlook is 'Stable'.

ASM was established as a Partnership firm in 2000 by Mr. Alagaraja and his family as partners. The firm's saw mill is located at Tenkasi (Tamil Nadu) with an installed capacity of 100 cubic meters/ per day. The firm is engaged in the import of round timber logs and processing them into various commercial sizes as per the requirement of its customers.

### About the Group

Ananda Saw Mills was originally established in 1982 as a partnership firm by Mr. Alagaraja along with other partners. However, the firm was closed in 2016 and a new firm was opened in January 2017 under the same name. The partners comprising of Mr. M.R. Alagaraja and his family including Mrs. A. Padma, Mr. Dhiyaneswaran and Mrs. Priyadarshini. The firm's saw mill is located at Tenkasi (Tamil Nadu) with an installed capacity of 100 cubic meters/ per day. 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.

### Analytical Approach

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Ananda Saw Mills and Arunesh Saw Mills. Both the entities are owned and managed by the same set of promoters and are into common line of business.

### Key Rating Drivers

#### Strengths

##### • Experienced management

Mr. M.R. Alagaraja, the Managing Partner has an experience of around three decades in the timber processing and trading business. It helped the group to establish its position in the domestic market and has enabled the group to leverage its relations with suppliers and customers. The improving revenues are supported by moderate off-take from residential and industrial segments. This has helped in doubling the revenues to about Rs.18.1 crore (Provisional) in FY2018 against Rs.8.39 crore in FY2017. The revenue growth is further supplemented by operations in the new firm. Acuité believes that the group continues to benefit from the partners' established presence in improving its business risk profile over the medium term.

## Weaknesses

### • Below average financial profile

The group's financial risk profile is marked by high total outside liabilities to tangible net worth (TOL/TNW), modest net worth though supported by moderate gearing (debt-to-equity), and comfortable debt protection metrics. The net worth is modest at about Rs.2.78 crore as on March 31, 2018, which is low on account of modest accretion to reserves. TOL/TNW is high at 7.14 times (Provisional) as on March 31, 2018 against 7.75 times in FY2017; high owing to letter of credits opened for import of timber logs with usance period of about 180 days. The gearing is moderate at 1.53 times as on March 31, 2018 against 1.06 times in FY2017. The debt protection metrics are comfortable marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 1.72 times and 0.11 times respectively for FY2018. Acuite believes that the financial risk profile continues to be at similar levels owing to the nature of business, and low net worth base.

### • Modest scale of operations and low profitability

The group has reported revenues of Rs.18.17 crore in FY2018 as against Rs.8.39 crore in FY2017. However, its existing scale of operations remains modest in the timber industry. Also, operating and net margins were reported low at 3.70 percent and 1.90 percent respectively for FY2018 due to intense competition, exposure to changes in the prices of raw material as well as forex fluctuations. Acuite believes that the operation will continue 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 group 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 from Malaysia, Singapore, Brazil and other African countries. It maintains raw material inventory of 4 to 6 months to meet diverse customer requirements. As a result, the operations of the firm remained working capital intensive in nature with high Gross Current Assets (GCA) of over 411 days during last three years ending FY2018; resulted in high limit utilisation of its working capital limits at around 90-95 percent for past six months ended with August 2018. Historically, the receivable days of the group have remained high in line with the industry trend. 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 the group 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' in case of substantial growth in revenue and profitability while improving its capital structure. The outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.17	8.39	8.29
EBITDA	Rs. Cr.	0.67	0.49	0.62
PAT	Rs. Cr.	0.34	0.19	0.17
EBITDA Margin	(%)	3.70	5.85	7.49
PAT Margin	(%)	1.90	2.28	2.06
ROCE	(%)	17.61	17.76	19.12
Total Debt/Tangible Net Worth	Times	1.53	1.06	1.66
PBDIT/Interest	Times	1.72	1.36	1.35
Total Debt/PBDIT	Times	3.96	2.49	4.33
Gross Current Assets (Days)	Days	411	664	566

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

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/criteria-default.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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.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	ACUITE B / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	6.00*	ACUITE A4 (Assigned)

\*OCC Rs.0.50 Crore and FCDL Rs.2.00 Crore are the sublimit of FLC/ILC

## Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 <a href="mailto:srihari.adari@acuute.in">srihari.adari@acuute.in</a></p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 <a href="mailto:bhavanisankar.oruganti@acuiteratings.in">bhavanisankar.oruganti@acuiteratings.in</a></p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 <a href="mailto:rating.desk@acuute.in">rating.desk@acuute.in</a></p>

### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

**Disclaimer:** An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.