



Press Release

Arunesh Saw Mills

October 17, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	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 usuance 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. Acuité 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. Acuité 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 usuance 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. Acuité believes that with the increasing scale of operations, the working capital requirements are expected to increase further over the medium term.

Outlook: Stable

Acuité 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

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About Acuité Ratings & Research:

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