

December 09, 2013

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	1.00	SMERA B/Stable (Assigned)
Letter of Credit	10.00	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA B**' (**read as SMERA B**) to the Rs.1.00 crore long-term bank facilities and '**SMERA A4**' (**read as SMERA A Four**) to the Rs.10.00 crore short-term bank facilities of Sri Balaji Timber Traders (Balaji). The outlook is '**Stable**'. The ratings are constrained by the firm's modest scale of operations and working capital-intensive nature of business. The ratings are further constrained by the firm's exposure to intense competitive pressure, supply constraint risk and foreign exchange rate volatility. However, the ratings derive comfort from the firm's experienced management and long-standing relationships with suppliers.

Balaji, established in 1972, is a Tamil Nadu-based partnership firm engaged in trading of various types of timber including teak wood and pine wood. Balaji imports round timber logs, which are subsequently sawn and sized into various sizes. The firm has a small scale of operations with total operating income of Rs.19.5 crore in FY2012-13 (refers to financial year, April 01 to March 31). Balaji's operations are working capital-intensive operations owing to extended receivables period and high inventory levels of Rs. 2.19 crore in FY2012-13. Balaji faces intense competitive pressure due to low entry barriers in the timber trading industry, which is highly fragmented by the presence of several players in the unorganised sector. The firm is exposed to foreign exchange fluctuation risk as it is entirely dependent on imports for procurement of round timbers. Balaji is also exposed to the risk of unfavourable changes in deforestation and export policies of timber-exporting countries.

Promoter of Balaji has more than 40 years of experience in the timber trading industry. Balaji benefits from its established relationships with suppliers based in Malaysia, Myanmar, Africa, Indonesia, and Singapore.

Outlook: Stable

SMERA believes Balaji will maintain a stable business risk profile on the back of its experienced management backed by promoters' experience. The outlook may be revised to 'Positive' in case of improvement in firm's debtor management and net worth. Conversely, the outlook may be revised to 'Negative' in case of a significant deterioration in the firm's Balaji financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements. The firm's

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ability to expand its scale of operations while registering better profit margins and improved cash flows is the key rating sensitivity.

About the firm

Balaji, established in 1972, is a partnership firm promoted by Mr. Govindlal Patel and Mr. Nagaraj Patel. Balaji is engaged in trading of timber. The firm has a sawing facility in Shencottah, Tirunelveli District — Tamil Nadu.

For FY2012-13, Balaji registered PAT of Rs.0.22 crore on revenue of Rs.19.5 crore, as compared with PAT of Rs.0.13 crore on revenue of Rs.17.23 crore for FY2011-12. The firm's net worth stood at Rs.2.59 crore as on March 31, 2013, as compared with Rs.2.42 crore a year earlier.

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