

December 11, 2013

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.00	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.2.00 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 Bhavani Saw Mills (Bhavani). The outlook is '**Stable**'. The ratings are constrained by the firm's modest scale of operations and working capital-intensive 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 are supported by the firm's experienced management, long-standing relationships with suppliers and healthy debt protection metrics.

Bhavani is a Tamil Nadu-based partnership firm engaged in trading of various types of timber including teak wood and pine wood. Bhavani 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.7.4 crore in FY2012-13 (refers to financial year, April 01 to March 31). Bhavani's operations are working capital-intensive owing to extended receivables period and high inventory levels. Bhavani 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. Bhavani is also exposed to the risk of unfavourable changes in deforestation and export policies of timber-exporting countries.

Mr. Dilip Patel and Mr. Praveen Patel, Managing Partner of Bhavani, has more than 50 years of experience in the timber trading industry. Bhavani benefits from its established relationships with suppliers based in Malaysia, Myanmar, Africa, Indonesia, and Singapore. Bhavani has low leverage at 0.13 times as on March 31, 2013.

Outlook: Stable

SMERA believes Bhavani 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. Conversely, the outlook may be revised to 'Negative' in case of is a significant deterioration in the firm's financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements. The firm's ability to expand its

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

About the firm

Bhavani is a partnership promoted by Mr. Dilip Patel and Mr. Praveen Patel. Bhavani is engaged in trading of timber. The firm has a sawing facility in Shencottah, Tirunelveli District — Tamil Nadu. Bhavani's proximity to the Tuticorin port facilitates import of timber.

For FY2012–13, Bhavani registered PAT of Rs.0.06 crore on revenue of Rs. 7.42 crore, as compared with PAT of Rs.0.07 crore on revenue of Rs.18.28 crore for FY2011–12. The firm's net worth stood at Rs.4.55 crore as on March 31, 2013, as compared with Rs.3.77 crore a year earlier.

Contact List

Media/ Business Development	Analytical Contacts	Rating Desk
Mr. Virendra Goyal, VP, SME – Sales Tel : +91 22 6714 1177 Cell : +91 9930074009 Email: virendra.goyal@smera.in Web: www.smera.in	Umesh Nihalani Head, Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

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