

April 11, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.00	SMERA B-/Stable (Assigned)
Letter of Credit	15.00	SMERA A4 (Assigned)

SMERA has assigned ratings of **'SMERA B-' (read as SMERA single B minus)** to the Rs.2.00 crore long-term bank facilities and **'SMERA A4' (read as SMERA A four)** to the Rs.15.00 crore short-term bank facilities of Srii Ganesh Saw Mill (SGSM). The outlook is **'Stable'**. The ratings are constrained by the firm's weak financial profile marked by low net profit margin, high leverage and low interest coverage ratio. The ratings are also constrained by the firm's working capital-intensive operations amidst intense competition prevalent in the timber trading industry. The ratings factor in the susceptibility of the firm's profit margins to volatility in timber prices and fluctuations in foreign exchange rates. However, the ratings derive comfort from the firm's experienced management.

SGSM, established in 2001, is a Tamil Nadu-based partnership firm engaged in trading of imported timber logs, which are sawn into various sizes. SGSM's net profit margin is low at 0.98 per cent in FY2012-13 (refers to financial year, April 01 to March 31). Moreover, the firm's net profit of Rs.0.31 crore (in FY2012-13) is mainly supported by non-operating income of Rs.0.24 crore. SGSM's leverage is high at 3.86 times as on March 31, 2013. The firm's interest coverage ratio is low at 1.57 times in FY2012-13. SGSM's operations are working capital-intensive, as reflected in gross current assets of 355 days in FY2012-13. The firm registered negative operating cash flows in FY2012-13 due to increase in working capital requirements.

SGSM faces intense competitive pressure in the timber trading industry, which is highly fragmented by the presence of several players in the unorganised sector. SGSM's profit margins are exposed to foreign exchange fluctuation risk as the firm is entirely dependent on imports for procurement of timber logs. SGSM's business is susceptible to unfavourable changes in deforestation and export policies of timber exporting countries.

SGSM benefits from its experienced management. The partners of the firm have around three decades of experience in the timber trading industry.

Outlook: Stable

SMERA believes SGSM will continue to benefit over the medium term from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving comfortable profit margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues or profit margins.

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About the firm

SGSM, established in 2001, is a Tamil Nadu-partnership firm promoted by the Patel brothers. SGSM is engaged in trading of imported timber logs.

For FY2012-13, SGSM reported PAT of Rs.0.31 crore on operating income of Rs.31.50 crore, as compared with PAT of Rs.0.27 crore on operating income of Rs.31.99 crore for FY2011-12. As per sales tax returns, the firm reported revenue of Rs.25.42 crore during April 2013 to November 2013. SGSM's net worth stood at Rs.1.86 crore as on March 31, 2013, as compared with Rs.1.45 crore a year earlier.

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