



## Press Release

M/s Shanthi Vijaya Saw Mill (SVSM)

July 11, 2020

### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facility – Cash Credit	3.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
2.	Long Term / Short Term Fund / Non Fund Based Bank Facility – Cash Credit / Inland / Import LC	4.00	IVR BB-/Stable Outlook / IVR A4 (IVR Double B Minus with Stable Outlook / IVR A Four)	Assigned
3.	Short Term Non Fund Based Bank Facility – Inland / Import LC	8.00	IVR A4 (IVR A Four)	Assigned
	<b>Total</b>	<b>15.00</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The ratings assigned to the bank facilities of M/s Shanthi Vijaya Saw Mill (SVSM) derives strength from extensive experience of its partners in timber trading business, sharp improvement in profitability during FY20 (Prov.), satisfactory financial risk profile with no near term external term debt repayment burden and adequate liquidity parameters. However, these rating strengths are partially offset by its small scale of operations in a highly fragmented industry with little product differentiation restricting price flexibility, exposure to regulatory risk and cyclicity inherent in its end-user sectors, risk associated with the nature of constitution and elongated receivable period.

### Key Rating Sensitivities

#### Upward rating factor(s)

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis and consequent improvement in liquidity on a sustained basis.
- Improvement in the capital structure and coverage indicators
- Improvement in the operating cycle with improvement in receivable days.



## Press Release

### **Downward rating factor(s)**

- More than expected moderation in scale of operations and/or profitability on a sustained basis.
- Withdrawal of subordinated unsecured loans amounting to Rs.2.83 crore, withdrawal of capital and/or moderation in the capital structure with deterioration in overall gearing to more than 1.5x.
- Further, elongation in the operating cycle impacting liquidity profile

### **List of key rating drivers with detailed description**

#### **Key Rating Strengths**

#### **Key Rating Strengths**

##### **Extensive experience of partners in timber trading business**

The partners, Mr Shivagan V Patel, Mr Mahendrakumar S Patel and Ms Premila P Patel are having experience of over two decades in the timber trading business. The extensive experience of the partners helped the firm to develop healthy relationships with its customers and suppliers and consequently to establish its position in the domestic market.

##### **Sharp improvement in profitability**

The firm witnessed a steady improvement in its profitability during FY20 (Prov.) where EBITDA and PAT improved from Rs.1.43 crore and Rs.0.01 crore respectively in FY19 to Rs.2.26 crore and Rs.1.37 crore respectively in FY20 (Prov.). The improvement was on the back of growth in operation, better cost management leading to cost optimization and favourable timber procurement price during FY20. A y-o-y decline in finance charges in FY20 also fuelled the improvement in its profitability.

##### **Satisfactory financial risk profile with no near term external term debt repayment burden**

The financial risk profile of the firm remained comfortable marked by its comfortable capital structure with no long term debt obligations which provides cushion to absorb any adverse spikes in the business to a certain extent. The net worth of the firm stood at Rs. 13.02 crore as



## Press Release

on March 31,2020 (Prov.) after considering subordinated unsecured loans amounting to Rs.2.82 crore as quasi equity. The overall gearing ratio of the firm stood comfortable at 0.54 times as on March 31,2020. Total indebtedness of the firm also stood comfortable with TOL/TNW at 1.14 times as on March 31,2020. With improvement in profitability the debt protection metrics of the firm also improved during FY20 (Prov.).

### **Adequate liquidity parameters**

The firm's ability to meet its short term debt obligations has been comfortable wherein the current ratio stands at 2.06 times (Mar 31, 2020 Provisional). Also there is less working capital intensity as the average utilization of its working capital limits are at 75 percent. There has been a decline in receivable days and inventory days thereby favourably affecting its working capital cycle.

### **Key Rating Weaknesses**

#### **Small Scale of operation**

The operations of the firm remained small over the years. Small scale of operations restricts the financial flexibility of the firm to a large extent.

#### **Highly fragmented industry with little product differentiation restricts pricing flexibility**

Timber processing is a business where there is least scope for value addition and faces stiff competition from numerous players operating in the industry which exerts pressure on its profitability. Also the presence of large number of unorganised players in the timber industry and low entry barriers exerts pressure on profitability.

#### **Exposure to regulatory risk and cyclicity inherent in end-user sectors**

SVSM's operations are exposed to the risk of regulatory uncertainties, adverse changes in foreign trade policy/deforestation policy and the inherent cyclicity in the end-user sector such as real estate and construction. Earnings are prone to change in regulatory policies relating to the tariff barriers (import duty, custom duty), non-tariff barriers, anti-dumping duties, international freight rates and port charges. Additionally, SVSM is also exposed to volatility in the timber prices as it does not enter into any hedging contract for its purchases. Further, fortune of the timber industry is largely interlinked with the growth of real estate sector which is highly cyclical and depends on movement of economic situation.

#### **Risks associated with the constitution**



## Press Release

SVSM being a partnership firm is prone to risk of capital withdrawal and any significant withdrawal of capital by the partners may weaken its net worth base and impact the capital structure.

### **Elongated receivable period**

The receivable period of the firm remained elongated over the years due to intense competition in the industry and its low bargaining power

**Analytical Approach:** Standalone

### **Applicable Criteria**

Rating methodology for Trading companies

Financial ratios and Interpretation (Non-Financial Sector)

### **Liquidity: Adequate**

The liquidity position of the firm is expected to remain adequate in the near term on the back of its minimal debt repayment obligations. Moreover, average utilization of its working capital limit remained moderate at ~75% during the past 12 months ended at May,2020 indicating a moderate liquidity buffer.

### **About the Firm**

Established in 1985 as a partnership firm, Shanthi Vijaya Saw Mill (SVSM) is involved in the import of round log and cut-to-size teak timbers, pine wood and hardwood. It caters to the domestic market with major presence in southern India. SVSM mainly deals in teak/pine wood (~60% of its total sales) and hard wood (~40% of the total sales). The firm supplies different kind of wood in various markets in India. It offers wide range of woods such as pine logs, Teak logs, Treated Size etc. The firm imports timbers mainly from Indonesia, Canada, Malaysia, New Zealand, Myanmar and European countries. The timber is primarily imported through the sea ports of Mangalore, Tuticorin, and Kandla. The firm has timber yards at all these ports to facilitate the warehousing and supply of timber logs.



## Press Release

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	24.68	27.94
EBITDA	1.43	2.26
PAT	0.01	1.37
Total Debt	9.96	6.79
Tangible Net worth	9.75	10.20
EBITDA Margin (%)	5.78	8.07
PAT Margin (%)	0.03	4.87
Overall Gearing Ratio (x)	1.02	0.54

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** N.A

### Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	3.00	IVR BB-/ Stable outlook	--	--	--
2.	Cash Credit / Inland / Import LC	Long Term / Short Term	4.00	IVR BB-/Stable Outlook / IVR A4	--	--	--
3.	Inland / Import LC	Short Term	8.00	IVR A4	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).





## Press Release

### Name and Contact Details of the Analysts:

Name: Mr. John Francis

Tel: (022) 62396023

Email : [jfrancis@infomerics.com](mailto:jfrancis@infomerics.com)

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: [apodder@infomerics.com](mailto:apodder@infomerics.com)

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	-	3.00	IVR BB-/ Stable Outlook
Cash Credit / Inland / Import LC	--	--	--	4.00	IVR BB-/ Stable Outlook/ IVR A4
Inland / Import LC			--	8.00	IVR A4