Rating Rationale

SKG Timbers Pvt Ltd **13 Nov 2018**

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs. 21.00 Crs of SKG Timbers Pvt Ltd ('SKG' or 'The Company')

Particulars

Facility *	Amount (Rs. Crs)	Tenure	Rating^
Fund Based Cash Credit	3.00**	Long Term	**BWR BB** (Pronounced as BWR Double BB) Outlook: Stable **Assigned**
Non-Fund Based Letter of Comfort	18.00	Short Term	**BWR A4** (Pronounced as BWR A Four) **Assigned**
Total	**21.00 (INR Twenty One Crore Only)**		

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*Annexure-I provides details of bank wise facilities
***one way interchangeability between LC to CC for Rs. 9.00 Crs.*

Rationale/Description of Key Rating Drivers/Rating sensitivities:
BWR has essentially relied upon the audited financials upto FY18, financial projections for FY19 and FY20, publicly available information and information/clarifications provided by the management.

The rating draws strength from the experience of promoter, strong capital structure and moderate conversion cycle. The rating, however, is constrained by the low profit margins, exposure to raw material price volatility, foreign exchange exposure risk and industry risks.

Going forward the ability of the company to increase its scale of operations, improve its profit margins and debt profile, increase promoter's equity in the business and efficiently manage foreign exchange fluctuation & material price volatility risks would remain the key rating sensitivities.

Key Rating drivers

Credit strengths

- **Experienced Promoters:** Promoters have extensive experience of more than a decade in the manufacturing and trading of wood and wood products. They have considerable track record in the industry which has resulted in long term relationships with customers and suppliers.They also have another company i.e. Archit Plywood Pvt Ltd which is in the same business.
- **Strong Capital Structure:** Capital structure of the company is strong marked by low overall gearing of 0.46 times for FY18 due to low fund based debt levels and high net worth base owing to accretion of profits to reserves.
- **Moderate Conversion Cycle:** Even Though the company is required to maintain inventory of goods of around one month on account of high lead time for procurement still the conversion cycle of the company is moderate at around 37 days for FY18 which leads to moderate working capital requirements.

Credit Weaknesses

- **Low Profitability Margins:** The profitability margin of the company have been historically on the lower side due to low value additive nature of the business and high competition. Subsequently, this leads to low coverage ratio as marked by the ISCR of 1.07% for FY18.
- **Foreign exchange fluctuation and material price volatility risks:** The company is mainly importing wooden logs from Asian countries and finished product is completely sold in the domestic market. Due to this the company is exposed to foreign exchange risk which it does not hedge. Also SKS is exposed to the volatility in the log prices as it does not enter into any long term contract for the purchase of logs and there is long time lag between procurement and liquidation of inventory which increases the risk of adverse price movement.
- **Industry Risks:** The timber industry is marked by the presence of unorganised players who preliminary caters to the regional demand to reduce incidence of high transportation costs as price being the main differentiating factor in the timber industry. The major income of SKS comes from trading of timber where the company processes timber logs and markets them to various retailers with limited value addition of the product. Timber trading business is characterised by high volumes and low margins. The timber trading sector is highly competitive, comprising of large number of players due to low entry barriers. This results in intense competition which has a cascading effect on the players' margins.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating

Criteria below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes SKG's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company shows sustained improvement in the scale of operations and profit margins. The rating outlook may be revised to 'Negative' if the company is not able to improve its profit margins and not able to manage foreign exchange and raw material price volatility risks.

About the Company

SKG Timbers Pvt Ltd was incorporated in 2010 as a private limited company, engaged in trading of MDF i.e Medium density fiberboard (MDF) and processing of wooden logs to make plywood. The Company is currently managed by Mr. Sushil Kumar who has experience of around 20 years in the business. The Company imports majority of the wooden logs requirement from Malaysia, China and Vietnam. The Company sells the products to wholesalers and traders located pan India. Their processing unit is located at Gandhidham where they process the timber according to the customers' requirement. They also have one facility located at Delhi. They also have an associate concern Archit Plywood Pvt Ltd, which is also engaged in manufacturing and trading of plywood.

Financial Performance

During FY18, The Company has reported net sales of Rs. 33.89 Crs and PAT of Rs. 0.03 Crs as against net net sales of Rs. 48.07 Crs and PAT of Rs. 0.47 Crs for FY17. Overall gearing was low at around 0.46 times for FY18. Current Ratio is moderate at 1.27 times for FY18. Coverage ratios are below benchmark due to low profit margins as marked by the ISCR of 1.07 times for FY18.

Key financial indicators are furnished in Annexure I.

Annexure I
Key Financial Indicators

Particulars		FY17 (Audited)	FY18 (Audited)
Net Sales	(Rs. Cr)	33.89	48.07
OPBDIT	(Rs. Cr)	0.41	0.38
PAT	(Rs. Cr)	0.03	0.47
Net Worth	(Rs. Cr)	5.95	6.42

13 Nov 2018

Total Debt:Net Worth	(Times)	0.07	0.46
Current Ratio	(Times)	2.07	1.27

Rating History for the last three years:

Facility	Amount (Rs.Crs)	Tenure	Current Rating (Nov 2018)	Rating History		
				2017	2016	2015
Fund Based Cash Credit	3.00	Long Term	**BWR BB** (Pronounced as BWR Double B) Outlook: Stable **Assigned**	N.A	N.A	N.A
Non-Fund Based Letter of Comfort	18.00	Short Term	**BWR A4** (Pronounced as BWR A Four) **Assigned**			
Total	**21.00**		**INR Twenty One Crore Only**			

Status of Non cooperation with other CRA : None.

Any other information : Not applicable.

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt
- Trading Entities

13 Nov 2018

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings
Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

13 Nov 2018