

Rating Rationale

Brickwork Ratings assigns BWR C and BWR A4 for the Bank Loan Facilities of ₹ 14.32 Cr of Ambika Wood Industries Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings¹** for the Bank Loan Facilities of Ambika Wood Industries Pvt. Ltd.

Facility	Amount (₹ Cr)	Tenure	Ratings
Overdraft Facility – Fund based	2.00	Long Term	BWR C
Non-Fund Based Working Capital Limit	12.32	Short Term	BWR A4 (BWR A Four)
Total	14.32	(INR Fourteen Crores and Thirty Two Lakhs only)	

BWR has relied upon the audited financial results upto FY12, provisional financials, projected financial results of FY14 and FY15, publicly available information and information/clarification provided by the Company management.

The ratings assigned are primarily constrained by company's small scale of operations, high gearing, devolvement of foreign letter of credit in the previous year, volatile exchange rates, intense competition in the same geography, declining top line and bottom line due to transitioning from teak business to pine business and high receivables position.

The aforementioned constraints are partially offset by the extensive experience of the directors, long track record of operations, strong demand of imported pine by customers, proximity to the customers and commissioning of new pine wood unit in the vicinity of the main customers.

Background:

Ambika Wood Industries Pvt. Ltd. was started in the year 1985 by Mr. Karsan Narayan Patel and in April 2004, he joined hands with Mr. Prakash K. Rangani and Mrs. Damayanti K. Rangani to form a Private Limited company. Currently the company has five directors and it is engaged in trading and processing timber by importing timber logs from New Zealand, USA and Panama. The company has its head office in Chromepat along with two retail units and a retail unit in Zamin Pallaram in Chennai. The company is also about to commission its new branch in Guduvancherry which will enhance proximity to their customers in packaging industry. 85% of the company's business is done in Tamil Nadu.

Business Operations:

The company has a saw mill factory in Chromepat, Chennai which has a manufacturing capacity of 400 cuf/day with utilization of 85%. Currently the sales are primarily from Pine Wood sales and they import pine timber logs mainly from New Zealand, that are shipped to the Tuticorin port and from there it is carried to their factory. Then the company cuts timber in a size required by the buyer and delivers. Payment terms with the suppliers is through Foreign Letter of Credit from

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Bank with 180 days term and payment terms with customers is on credit period of 60-90 days.

With the commissioning of the new unit in Guduvancherry, its manufacturing capacity will increase by 800 cuf/day. The company is also involved in selling timber in the form of products like doors and plywood to provide income diversity to their trading business.

Financial Performance:

The revenues from operations have fallen by ~32% in FY13 (provisional) from ₹ 17.34 in FY12 crores to ₹ 11.77 crores in FY13 due to their transition from teak business to pine business which has also led to shift of customer base from Andhra Pradesh to Tamil Nadu. Operating margins have almost doubled in FY13 as cost of pine is almost one-third of cost of teak. However, net profit margins are on a declining trend and have decreased from 0.73% in FY12 to 0.28% in FY13 due to increase in interest costs because of high working capital requirements and term loan taken for expansion. The tangible net worth as on 31st March 2013 stood at ₹1.84 crores and the company is still offsetting losses incurred in 2008-09 due to the global financial crisis. Debt protection metrics have been deteriorating as reflected in Debt-Equity ratio of 3.31 times in FY13, which increased from 1.64 times in FY12.

Rating Outlook:

The ability of the company to successfully transition their business from teak oriented business to pine oriented business, ensure no devolvement of foreign letter of credit in the future, foreign currency fluctuations, improving economic conditions and improving recovery of payments from customers will be key sensitivities.

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