Press Release

Fazil Timbers

October 04, 2017

Rating Assigned

<table>
<thead>
<tr>
<th>Total Bank Facilities Rated*</th>
<th>Rs. 7.30 Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Rating</td>
<td>SMERA B / Outlook: Stable</td>
</tr>
<tr>
<td>Short Term Rating</td>
<td>SMERA A4</td>
</tr>
</tbody>
</table>

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of ‘SMERA B’ *(read as SMERA B)* and short term rating of ‘SMERA A4’ *(read as SMERA A four)* on the Rs. 7.30 crore bank facilities of Fazil Timbers. The outlook is 'Stable'.

Fazil Timbers (FT) established in 2005 is a Tamil Nadu-based partnership firm promoted by Mr. S. Mohamed Umare Farook and Ms. L. Fathima Banu. The firm imports timber logs (Teak, Padauk wood and Sal wood) from Australia, Singapore and other African countries and supplies the same to clients in Tamil Nadu, Andhra Pradesh and Karnataka.

Key Rating Drivers

Strengths

• Experienced management and moderate track record
  The firm was established by Mr. S. Mohamed Umare Farook and Ms. L. Fathima Banu. Both the partners have more than a decade of experience in timber trading.

• Healthy operating margins
  The operating margins declined to 4.38 percent in FY2016-17 (Provisional) from 4.70 percent in FY2015-16 on account of fluctuation in raw material prices. The firm registered foreign exchange gain of Rs.0.38 crore in FY2016-17. The healthy RoCE stood at 16.35 percent in FY2016-17 (Provisional).

Weaknesses

• Small scale of operations
  The scale of operations is small with operating income of Rs.9.03 crore in FY2016-17 (Provisional) compared to Rs.6.88 crore in FY2015-16. The firm registered revenue of Rs.3.61 crore from April 2017 - August 2017.

• Below average financial risk profile
  FT has below average financial risk profile marked by low net worth of Rs.1.43 crore as on 31 March, 2017 (Provisional) as against Rs.1.14 crore as on 31 March, 2016. The gearing stood at 0.78 times as on 31 March, 2017 (Provisional) compared to 1.20 times in the previous year. The total debt of Rs.1.11 crore comprises short term and long term borrowings of Rs.0.65 crore and Rs.0.09 crore respectively apart from unsecured loans from relatives of Rs.0.37 crore. The Interest coverage ratio stood at 1.18 times in FY2017 (Provisional). The NCA/TD stood low at 0.06 times in FY2017 (Provisional). The TOL/TNW levels are moderate at 3.88 times for FY2017 (Provisional).

• Working capital intensive operations
The operations are working capital intensive as reflected by the high gross current assets (GCA) of 240 days as on 31 March, 2017 (Provisional) (PY: 297 days). This was on account of high inventory holding of 105 days (PY: 176 days) and debtor days of 139 (PY: 124 days).

• **Partnership constitution**
  The firm is exposed to the risk of capital withdrawal considering its partnership constitution. However, such withdrawals have not been observed in the past.

• **Susceptibility of margins to volatility in raw material prices, forex fluctuation risk**
  The prices of timber, the major raw material, are volatile in nature. The firm imports timber logs from Australia, Singapore and African countries and the same is unhedged. Since the raw material cost constitutes about 93 percent of the total cost, the profitability is exposed to forex fluctuation risk. The PAT margin stood at 0.43 percent in FY2016-17 (Provisional) against 0.40 percent in FY2015-16.

**Analytical Approach**
SMERA has considered the standalone business and financial risk profile of FT to arrive at the rating.

**Outlook: Stable**
SMERA believes that FT will maintain a stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm generates healthy cash flows from operations while achieving comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of delays in project implementation.

**About the Rated Entity - Key Financials**
FT reported net profit after tax (PAT) of Rs.0.03 crore on operating income of Rs.6.88 crore in FY2015-16 compared to PAT of Rs.0.02 crore on operating income of Rs.12.60 crore in the previous year. The net worth stood at Rs.1.14 crore as on March 31, 2016 compared to Rs.0.78 crore a year earlier.

**Status of non-cooperation with previous CRA (if applicable)**
Brickwork, press release dated August 5, 2016 has not reviewed the ratings of FT on account of lack of adequate information required for monitoring of ratings.

**Any other information**
None

**Applicable Criteria**

- Default Recognition - [https://www.smera.in/criteria-default.htm](https://www.smera.in/criteria-default.htm)
- Trading Entities - [https://www.smera.in/criteria-trading.htm](https://www.smera.in/criteria-trading.htm)
- Financial Ratios And Adjustments - [https://www.smera.in/criteria-fin-ratios.htm](https://www.smera.in/criteria-fin-ratios.htm)

**Note on complexity levels of the rated instrument**
[https://www.smera.in/criteria-complexity-levels.htm](https://www.smera.in/criteria-complexity-levels.htm)

**Rating History (Upto last three years)**
Not Applicable

*Annexure – Details of instruments rated*

<table>
<thead>
<tr>
<th>Name of the Facilities</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. Cr.)</th>
<th>Ratings/Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Credit</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>Not Applicable</td>
<td>0.70</td>
<td>SMERA B / Stable</td>
</tr>
<tr>
<td>Ad-hoc limits</td>
<td>Not Applicable</td>
<td>Not</td>
<td>Not</td>
<td>0.20</td>
<td>SMERA B / Stable</td>
</tr>
</tbody>
</table>
(Fund Based) | Applicable | Applicable | Applicable | 
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 0.50 | SMERA A4 | 
| Letter of credit | Not Applicable | Not Applicable | Not Applicable | 5.90 | SMERA A4 | 

**Contacts**

**Analytical**

Vinayak Nayak  
Head – Ratings Operations  
Tel: 022-67141190  
vinayak.nayak@smera.in

Sudarson Swami  
Analyst - Rating Operations  
Tel: 022-67141179  
sudarson.swami@smera.in

**Rating Desk**

Varsha Bist  
Manager - Rating Desk  
Tel: 022-67141160  
varsha.bist@smera.in

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