

Press Release

Friends Fab Form Private Limited

March 30, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 10.00 crore bank facilities of Friends Fab Form Private Limited. The outlook is '**Stable**'.

Established as a proprietorship concern in 1978, the former Consolidated Chemequip (MFR) Corporation was converted to Friends Fab Form Private Limited [FFFPL] in 1989. The company is led by Mr. Nishith R. Shah and engaged in the design and manufacture of critical chemical process equipments such as columns, heat exchangers, Class I Pressure vessels among others at Thane, Maharashtra. The company caters to several industries including petroleum, fertilisers to name a few.

Key Rating Drivers

Strengths

- **Experienced management**

FFFPL was incorporated in 1989 by Mr. Nishith R. Shah and Mr. Jayesh Shah who possess over 30 years of experience in a similar line of business.

- **Healthy operating margins**

The operating margins are healthy and stood at 11.53 percent in FY2016 as compared to 6.20 percent in FY2015. The margins have improved due to decline in employee cost as a percentage of sales.

- **Moderate financial risk profile**

FFFPL's financial risk profile is moderate with low net worth of Rs.2.76 cr as on 31 March 2016. The gearing stood at 0.52 times as on 31 March, 2016 as against 0.49 times as on 31 March, 2016. The company does not have any principal obligations to the bank as it does not have any long term debt. The ICR is healthy and stood at 4.26 times in FY2016 as compared to 2.11 times in FY2015.

- **Reputed customer base**

FFFPL caters to reputed customers such as Reliance Industries Ltd., Kirloskar Pneumatic Co. Ltd., Deepak Fertilisers among others.

Weaknesses

- **Fluctuating operating income**

The operating income stood at Rs.13.67 cr in FY2016 as compared to Rs.6.76 cr in FY2015 and Rs.11.79 cr in FY2014. For 11FY2017 (Provisionals), the operating income stood at Rs.8.64 cr. The operating income has shown fluctuating trends in the past on account of slow offtake of order book position. This is due to limited investment by the private sector in end-user industries such as

chemicals, petrochemicals, fuel processing, refrigeration to name a few.

• Moderate order book position

FFFPL's unexecuted order book is moderate at Rs.8.50 cr which is to be executed by Nov 2017.

• Working capital intensive operations

FFFPL's operations are working capital intensive with Gross Current Assets (GCAs) of 136 days on account of high inventory levels of 106 days in FY2016. The average cash credit utilisation stood at ~75 percent in the last six months ended February 2017.

• Susceptibility of profit margins

The profitability is susceptible to volatility in raw material prices of mainly metal and steel products. Further, the company operates in a highly fragmented and competitive industry which consists of a large number of organised and unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company to arrive at the rating.

Outlook: Stable

SMERA believes that FFFPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenue, profit margins or in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2015-16, the company registered profit after tax (PAT) of Rs.0.70 cr on operating income of Rs.13.67 cr as against net profit after tax of Rs.0.01 cr on operating income of Rs.6.76 cr in the previous year. The net worth stood at Rs.2.76 cr as on 31 March 2016 as compared to Rs.2.10 cr as on 31 March 2015.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not	Not	Not	2.00	SMERA BB- /

	Applicable	Applicable	Applicable		Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.90	SMERA A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.10	SMERA A4+

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