

Press Release

Friends International

March 30, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

** 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. 11.00 crore bank facilities of Friends International. The outlook is '**Stable**'.

The Jaipur-based Friends international (FI) was established in 2002 as a partnership concern by Mr. Om Prakash Dangayach and his wife, Mrs. Pushpa Dangayach. FI is engaged in the processing and export of precious and semi-precious gemstones like Tanzanite, Emerald, Morganite, Ruby, Amethyst and Citrine. The processing unit is located at Jaipur (Rajasthan). The firm procures rough gem stones from Jaipur as well as imports the same from Hong Kong, Tanzania and USA and exports its products to Hong Kong, Dubai, Thailand and USA.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters have more than two decades of experience in the said line of business.

- **Moderate financial risk profile**

FI has moderate scale of operations at Rs.58.23 cr in FY2015-16 against Rs.64.13 cr in the previous year. The gearing has been moderate at 2.75 times in FY2015-16. Moreover, the interest coverage ratio has been comfortable at 1.56 times in FY2015-16 as compared to 1.55 times FY2014-15. The operating margin stood at 2.02 per cent in FY2015-16 against 1.52 per cent in FY2014-15. The net profitability declined to Rs.0.39 cr in FY2015-16 against Rs.0.70 cr in FY2014-15.

Weaknesses

- **Susceptibility of profit margins to exchange rate fluctuations**

FI is exposed to forex fluctuation risk since it exports products to USA, Hongkong Dubai and Thailand. However, the ratings are constrained by the susceptibility of profit margins to fluctuations in forex rates. The firm's products find their application in the gems and jewellery industry. The profit margins are also susceptible to fluctuations in the prices of gemstones.

- **Working capital intensive business and stretched liquidity profile**

The firm has working capital intensive business with high gross current assets (GCA) days of 144 days in FY2015-16 against 181 days in FY2014-15. The firm has stretched liquidity profile (98 per cent bank limit utilised from June 2016 to November 2016).

- **Intense competition**

The firm faces intense competition from various players in India and overseas which is likely to have

an impact on its operating performance and profitability.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of the firm.

Outlook: Stable

SMERA believes that FI will continue to maintain a stable outlook over the medium term and benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers substantial growth in revenues and profitability while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or working capital management.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.0.39 cr on operating income of Rs.58.23 cr, as compared to profit after tax (PAT) of Rs.0.70 cr on operating income of Rs.64.13 cr in FY2014-15. The net worth stood at Rs.3.94 cr as on March 31, 2016 against nil a year earlier.

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
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA B / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA A4

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ABOUT SMERA

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