

Press Release

Friends International (FI)

July 09, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed a long-term rating of '**ACUITE B** (read as **ACUITE B**) and short term rating of '**ACUITE A4 (read as ACUITE A four)**' on the Rs.11.00 crore bank facilities of Friends International (FI). The outlook is '**Stable**'.

Rajasthan-based, Friends International (FI) was established in 2002 as a partnership firm by Mr. Om Prakash Dangayach and Mrs. Pushpa Dangayach. The firm is engaged in processing, trading and exports of precious and semi-precious gemstones like Tanzanite, Emerald, Morganite, Ruby, Amethyst and Citrine. These gemstones are procured domestically as well as imported from overseas. The firm exports to countries like Hong-Kong, USA and Tanzania to name a few.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of FI to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Friends International was established in 2002, thus the firm has an operational track record of around 17 years. Mr. Om Prakash Dangayach and Mrs. Pushpa Dangayach have been associated with the firm since inception and have experience of more than three decades in the same industry. Further the management of the firm is headed by Mr. Giriraj Dangayach who has an extensive experience of over three decades in the same line of business. Acuité believes that FI will benefit from its established position in the said industry, experienced management and established relationships with customers and suppliers.

Weaknesses

- **Customer concentration:**

FI is exposed to customer concentration as more than ~ 90 percent of the revenue generated in FY2018 and FY2017 are from two customers namely, AAA Gems & Jewelry Co and Green Creation Incorporative. Any adverse impact on the credit profile of these two customers will impact the cash flows of FI.

- **Below Average financial risk profile**

The financial risk profile of FI remained below average marked by low net worth, debt protection metrics and coverage indicators. The net worth of the firm stood at Rs. 0.57 crore as on 31 March 2018 as against Rs. 3.74 crore as on 31 March 2017. The decrease in net worth is majorly on account of withdrawal of capital from the promoters to pay off the creditors of the sister concern "Om Royal Jewelry India Private Limited". The gearing (debt-equity) stood at 17.02 times as on 31 March 2018 as against 2.93 times as on 31 March 2017. The total debt of Rs. 9.67 crore as on 31 March 2018 entirely comprises of working capital borrowings. The coverage indicators are average marked by Interest Coverage Ratio (ICR) which stood at 1.65 times for FY2018 as against 1.42 times for FY2017. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.04 times in FY2018 and 0.03 times in FY2017. Debt to EBITDA stood at 9.25

times in FY2018 as against 8.73 times in FY2017.

• Working capital intensive operations:

FI's working capital operations are intensive marked by Gross Current Assets (GCA) of 176 days for FY2018 as against 168 days in the previous year. The GCA days are high on account of inventory holding period of 92 days for FY2018 compared to 99 days for FY2017. Further, the debtor collection period stood at 70 days for FY2018. The current ratio for FY2018 is 0.92 times compared to 1.13 times in the previous year. The fall in current ratio is on account of rise in trade payables to Rs. 7.06 crores for FY2018 as against Rs. 2.21 crores for FY2017.

• Foreign exchange exposure:

Friends International generates its revenues by exporting processed gems overseas thus the business is vulnerable to exchange rate fluctuations and fragile macroeconomic stability. The firm hedges its exposure by keeping a margin in transactions and making forward contracts.

Liquidity position

Friends International has stretched liquidity marked by intensive working capital operations and high utilization of bank limits. The gross current asset (GCA) days stood at 176 days for FY2018 on account of high inventory holding period of 92 days. The creditor days has increased at 86 days in FY2018 as against 27 days in the previous year. The firm maintains cash and bank balances of Rs. 1.13 crore as on 31 March 2018. Further the bank limit utilization for the last six months is ~90 percent. The current ratio stands at 0.92 times as on 31 March 2018. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals and working capital intensive operations.

Outlook: Stable

Acuité believes that Friends International will maintain a 'Stable' outlook over the medium term backed by its experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	32.11	32.33	58.23
EBITDA	Rs. Cr.	1.05	1.28	1.18
PAT	Rs. Cr.	0.17	0.10	0.39
EBITDA Margin	(%)	3.26	3.96	2.02
PAT Margin	(%)	0.54	0.31	0.67
ROCE	(%)	6.47	6.66	8.31
Total Debt/Tangible Net Worth	Times	17.02	2.93	2.75
PBDIT/Interest	Times	1.65	1.42	1.95
Total Debt/PBDIT	Times	9.25	8.73	7.37
Gross Current Assets (Days)	Days	176	168	144

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities in trading sector - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of the instrument/ facilities	Term	Amount (Rs. Cr.)	Ratings/ Outlook
08-May-2018	Packing Credit	Long Term	5.50	ACUITE B/ Stable (Reaffirmed)
	Bill Discounting	Short Term	5.50	ACUITE A4 (Reaffirmed)
30-Mar-2018	Packing Credit	Long Term	5.50	ACUITE B/ Stable (Assigned)
	Bill Discounting	Short Term	5.50	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B/ Stable (Reaffirmed)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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