

Press Release

Friends International

September 11, 2020

Rating Downgraded & Withdrawn



Total Bank Facilities Rated*	Rs.11.00 Cr.#
Long Term Rating	ACUITE B- (Downgraded & Withdrawn)
Short Term Rating	ACUITE A4 (Withdrawn)

#Refer Annexure for details

Rating Rationale

Acuite has downgraded and withdrawn the long term rating to '**ACUITE B-' (read as ACUITE B minus)** from '**ACUITE B' (read as ACUITE B)** and the short term rating of '**ACUITE A4' (read as ACUITE A four)** on the Rs.11.00 crore bank facilities of Friends International (FI). The rating withdrawal is in accordance with Acuite's 'policy on withdrawal of rating'.

The rating is being withdrawn on account of request received from the company and NOC received from the bank. Further, the downgrade reflection in the rating is on account of the decline in the scale of operations of the firm along with the deterioration in the working capital operations and financial risk profile.

Jaipur-based (Rajasthan) Friends International (FI) was formed in 2002 as a partnership concern by Mr Om Prakash Dangayach along with his wife, Mrs Pushpa Dangayach. FI is primarily engaged in processing and export of precious and semiprecious gemstones particularly like Tanzanite, Emerald, Morganite, Ruby, Amethyst and Citrine through its processing unit located at Jaipur (Rajasthan). The firm generates all of its revenues from exports of the processed gems to countries like the USA and some Asian countries like Hong Kong.

Analytical Approach

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

Strengths:

Experienced 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 extensive experience of over three decades in the same line of business. Acuite believes that FI will benefit from its established position in the said industry, experienced management and established relationships with customers and suppliers.

Weaknesses:

Average financial risk profile

FI has an average financial risk profile marked by net worth of Rs. 0.76 crore as on 31 March, 2020 (Provisional) as compared to Rs.3.30 Crore as on 31 March, 2019. Gearing (Debt-to-equity) stood high at 10.15 times as on 31 March 2020 (Provisional) as against 2.02 times as on 31 March 2019. Total debt of Rs. 7.70 crores entirely comprise of working capital limits. ICR (Interest coverage ratio) stood at 1.51 times for FY2020 (Provisional) as against 2.01 times for FY2019. Further the cash accruals of the firm stand at Rs. 0.11 crore in FY2020 (Provisional) as against Rs. 0.37 crores in the previous year against no repayment obligations for both years.

Working capital intensive nature of operations

The firm's operations are working capital intensive in nature as reflected in Gross Current Assets (GCA) of 302 days in FY2020 (Provisional) as against 257 days in FY2019. GCA days remained high mainly on account of the inventory holding period, which is 267 days in FY2020 (Provisional). And the debtor collection period stands at 36 days. Further, creditor payback period stood at 88 days in the FY2020 (Provisional). Acuite believes that the

working capital requirements will continue to remain moderately intensive over the medium term on account of the level of inventory to be maintained.

Rating Sensitivity

NA

Material Covenants

None

Outlook

NA

Liquidity position: Stretched

FI has stretched liquidity marked by low cash accruals and stretched working capital operations. The firm generated cash accruals of ~Rs.0.41 to Rs. 0.11 crore during the last three years through 2018-20 (Provisional), while there are no maturing debt obligations over the same period. The firm's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 302 in FY2020 (Provisional) however the same was on account of the build-up of inventory levels due to the Covid-19 pandemic. The current ratio of FI stood low at 0.92 times as on March 31, FY2020 (Provisional). Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of average cash accrual against the maturing debt obligations.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

About the Rated Entity- Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	11.26	24.94
PAT	Rs. Cr.	0.11	0.16
PAT Margin	(%)	0.98	0.64
Total Debt/Tangible Net Worth	Times	10.15	2.02
PBDIT/Interest	Times	1.54	2.01

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

CARE, vide its press release dated July 24, 2020 had denoted the rating of Friends International as 'CARE B-/A4 (ISSUER NOT COOPERATING)' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
09-July-2019	Packing Credit	Long term	5.50	ACUITE B/Stable (Reaffirmed)
	Bill Discounting	Short term	5.50	ACUITE A4 (Reaffirmed)
08-May-2018	Packing Credit	Long term	5.50	ACUITE B/Stable (Reaffirmed)
	Bill Discounting	Short term	5.50	ACUITE A4 (Reaffirmed)
30-March-2017	Packing Credit	Long term	5.50	ACUITE B/Stable (Assigned)

	Bill Discounting	Short term	5.50	ACUITE A4 (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE B- (Downgraded from ACUITE B/Stable & Withdrawn)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE A4 (Withdrawn)

*The issuer did not co-operate; based on best available information.

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About Acuité Ratings & Research:

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