

Press Release

Standard Doors

July 23, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned 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. 6.00 crore bank facilities of Standard Doors. The outlook is '**Stable**'.

Standard Doors (ST) is a Hyderabad based partnership firm established in 2002 by Mr. Mohan Reddy. It is engaged in the manufacturing of moulded skin doors, plywood flush doors and panel boards. The manufacturing facility is located at Medchal (Hyderabad). The firm imports raw materials such as skins and timber from Malaysia, USA among others and sells 70 percent of the stock to the SM Corporation.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

Standard Doors is a family run business established in 2002 as a partnership firm. The Partners, Mr. Mohan Reddy, Mr. Subramanyam and Mr. Sridhar possess more than a decade of experience in the industry. Mr. Subramanyam is actively involved in procuring materials and looks after the manufacturing facility. Mr. Sridhar looks after the marketing and sales. Acuité believes that ST will benefit from its experienced management and long standing relationship with the SM Corporation.

- **Comfortable financial risk profile**

Financial risk profile of the firm is comfortable marked by strong gearing (debt to equity ratio), moderate debt protection metrics and healthy total outside liabilities to total net worth (TOL/TNW). Gearing is strong at 0.25 times as on 31 March, 2018 (Provisional) on account of healthy networth of Rs.9.11 crore as on 31 March, 2018 (Provisional). Debt protection metrics of interest coverage ratio and debt service coverage ratio is moderate at 2.34 times and 1.30 times respectively in FY2018 (Provisional). TOL/TNW is healthy at 0.49 times as on 31 March, 2018 (Provisional). Financial risk profile is expected to be comfortable in the absence of major debt funded capital expenditure in the medium term.

Weaknesses

- **Modest scale of operation**

Despite being in the industry since 2002, revenues of the firm is modest at Rs.9.18 crore in FY2018 (Provisional) as against Rs.7.07 crore in FY2017. Further, operating margins also declined to 10.53 percent in FY2017 from 15.98 percent in FY2015. Acuité believes that the ability of the company to improve the scale of operations while maintaining operating margins would be the key rating sensitivity factor in the medium.

- **Working capital intensive operations**

The operations of the firm are working capital intensive marked by high Gross Current Assets of 390 days in FY2018 and 508 days in FY2017. This is mainly on account of high inventory holding period of around 311 days in FY2018 (Provisional) and 448 days in FY2017. Further, debtors are high at 88 days in FY2018 (Provisional) and 55 days in FY2017 on account of delay in payments from the customers. The same led to full utilization of working capital limits for the last six months through May 2018.

• **Client concentration risk and exposure to intense competition**

The firm generates around 70-80 percent of revenues from the SM Corporation located at Punjab. Hence, exposing to client concentration risk. Further, the furniture market in India is dominated by unorganised players such as local carpenters as well as large organised players in both domestic and overseas players. The technological abilities, established brand, and financial resources of such players are likely to intensify competition among organised Indian players over medium to long term. The ability of the firm to diversify its client base coupled with the ability to maintain the profitable margins in the highly fragmented industry would be the key rating sensitivity.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the Standard Doors to arrive at this rating.

Outlook: Stable

Acuité believes that Standard Doors will maintain a 'Stable' outlook in the medium term on account of extensive industry experience of the promoters. The outlook may be revised to 'Positive' in case Standard Doors registers higher-than-expected growth in revenues while sustaining the profitability and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in working capital management leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	7.07	7.19	8.46
EBITDA	Rs. Cr.	0.74	0.70	1.35
PAT	Rs. Cr.	0.11	0.18	0.59
EBITDA Margin	(%)	10.53	9.81	15.98
PAT Margin	(%)	1.52	2.53	6.97
ROCE	(%)	4.60	4.28	14.81
Total Debt/Tangible Net Worth	Times	0.25	0.23	0.16
PBDIT/Interest	Times	1.97	2.19	4.77
Total Debt/PBDIT	Times	2.74	2.47	1.16
Gross Current Assets (Days)	Days	508	543	444

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 (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 Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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