

Press Release

Frontier Furniture

March 28, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.50	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	5.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.5.50 crore bank facilities of Frontier Furniture (FF). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating factors in the company's established track of operations, experienced management and moderate financial risk profile. The operating performance of the firm has been affected amid impact of Covid-19 pandemic, it is expected to improve in the medium term. However, high competitive industry, deterioration in revenue and profitability margin and intensive working capital operations to constrain the rating.

About the Company

Mumbai-based FF was established in 2004 as a proprietorship firm by Mr. Yuvraj Singh. FF is a design and build turnkey interior firm providing interior designing solutions to many reputed companies predominantly in the BFSI sector. The firm caters to many reputed customers like Standard Chartered Bank, HDFC bank and RBL bank to name a few.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the FF to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

The firm is promoted by Mr. Yuvraj Singh who is the sole proprietor along with Ms. Mallika Singh, both of whom are industry veterans with over two decades of experience and are well qualified. The top management of the firm is backed by an equally qualified second line of management. The vast experience of the promotor along with long track record of operations of the firm amounting to over 16 years has led to increasing scale of operations of the firm.

Acuite believes that the firm will benefit from the rich experience of the promoters in the medium term.

Moderate financial risk profile

The financial risk profile of the firm stood moderate marked by modest net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.2.79 crore as on March 31, 2021 (Prov.) as against Rs.2.51 crore as on March 31, 2020. The total debt of the firm stood at Rs.2.45 crore includes Rs.0.40 crore of long term debt, Rs.0.23 crore of unsecured loans and Rs.1.83 crore of short term debt as on March 31, 2021 (Prov.). The gearing (debt-equity) stood at 0.88 times as on March 31, 2021 (Prov.) as compared to 0.73 times as on March 31, 2020. Interest Coverage Ratio stood at 4.67 times for FY2021 (Prov.) as against 8.03 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.58 times for FY2021 (Prov.) as against 4.84 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.77 times as on March 31, 2021 (Prov.) as against 2.55 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.10 times for FY2021 (Prov.) as against 0.54 times for FY2020.

Acuité believes that the financial risk profile of the firm will continue to remain same over the medium term.

Weaknesses

Intensive working capital operations

The working capital management of the company is efficient marked by GCA days of 187 days in FY2021 (Prov.) as against 95 days in FY2020. The inventory days stood at 37 days in FY2021 (Prov.) as against 18 days in FY2020. Also, the debtor days stood at 72 days in FY2021 (Prov.) as against 35 days in FY2020. . The average bank limit utilization stood high at around 90.00 percent for the last 3 months ended January 2022.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Competitive industry

The firm operates in an industry marked by many organized and unorganized players, therefore leading to intense competition amongst each other. Further, the business has the inherent risk of quotation/tender based operations; however, the risk is mitigated to some extent due to the experience of the promoter.

Decline in scale of operations and profitability margin

The revenue of the firm has declined and stood at Rs.14.64 crore in FY2021 (Prov.) as against Rs.30.87 crore in FY2020. The decline in revenue is due to the impact of Covid-19 pandemic on the operations of the firm. Similarly, the operating margin of the firm has declined and stood at 4.72 percent in FY2021 (Prov.) as against 6.67 percent in FY2020. PAT margin also declined and stood at 1.39 percent in FY2021 (Prov.) as against 3.08 percent in FY2020. The decline in margin is due to aggressive measures taken by the firm to recapture market share by dropping margins due to high competition in the market.

Going forward, the ability of the firm to improve its scale of operations along with profitability margins will remain a key rating sensitivity.

Rating Sensitivities

Improvement in the scale of operations and profitability margins.

Any further stretch in working capital management leading to deterioration in the financial risk profile and liquidity profile.

Material covenants

None.

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accrual as against maturing debt obligation. The firm generated moderate cash accruals of Rs.0.24-1.06 crore during the last three years through 2019-21, as against maturing debt obligation of Rs.0.04-0.05 crore during the same period. The firm's working capital operation stood intensive marked by GCA

days of 187 days in FY2021 (Prov.) as against 95 days in FY2020. The current ratio of the firm stood at 1.75 times as on March 31, 2021 (Prov.). The average bank limit utilization stood high at around 90.00 percent for the last 3 months ended January 2022.

Outlook: Stable

Acuité believes that FF will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in the working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	14.64	30.87
PAT	Rs. Cr.	0.20	0.95
PAT Margin	(%)	1.39	3.08
Total Debt/Tangible Net Worth	Times	0.88	0.73
PBDIT/Interest	Times	4.67	8.03

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Dec 2020	Secured Overdraft	Long Term	3.50	ACUITE BB Stable (Assigned)
	Secured Overdraft	Long Term	2.00	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
RBL Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB Stable Reaffirmed
RBL Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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