

Press Release

Friends Timber Private Limited

D-U-N-S® Number: 67-645-5539

December 12, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 26.25 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 26.25 crore bank facilities of Friends Timber Private Limited (FTPL). The outlook is '**Stable**'.

FTPL based at Nagpur (Maharashtra) was established as a partnership firm named 'Friends Timber' in 1974 by Jaiswal and Kohli Family and later reconstituted into private limited company in 1999. The company is engaged in manufacturing and export of Teak Wood products such as Sawn Timber, Decking and Parquets. FTPL also manufactures Teak Face Decorative Veneers which is an input for plywood industry. The company specialises in Teak Sawn Timber under the brand name 'FRIENDS'.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

FTPL, established in 1974, is promoted by Kohli and Jaiswal family. The key promoters, Mr Anandkumar Kohli and Mr. Satish Jaiswal have trading experience of four decades in timber industry and manage the day-to-day operations of the company. The experience of Directors has aided FTPL in establishing a foothold in timber industry.

- **Moderate financial risk profile**

FTPL has moderate financial risk profile marked by adjusted net worth of Rs.18.87 crore as on 31 March, 2018 compared to Rs.13.52 crore as on 31 March, 2017. Borrowings from promoters have been considered as a part of quasi equity as the same have been subordinated to bank debt. The adjusted gearing stood moderate at 0.73 times as on 31 March, 2018 as against 0.97 times as on 31 March, 2017. The interest coverage ratio (ICR) stood at 1.69 times in FY2018 as against 1.41 times in FY2017. The TOL/TNW stood at 1.91 times in FY2018 as against 1.90 times in FY2017.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 266 days in FY2018, which has increased from 250 days in FY2017. The high GCA days are due to inventory days of 112 in FY2018. The debtor days stood at 152 in FY2018 as against 130 in FY2017.

- **Profit margins are susceptible to volatility in raw material prices and forex fluctuation**

The company imports timber from Malaysia and Myanmar. As a result, the margins are susceptible to fluctuations in raw material prices and forex rates in the absence of any hedging mechanism.

- **Highly competitive industry**

The company is exposed to intense competition in the industry from several small and large players on account of limited entry barriers, limiting the bargaining power with the customers as well as suppliers.

Outlook: Stable

Acuité believes that the outlook of the FTPL will remain 'Stable' over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital requirements 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.	67.45	49.90	45.79
EBITDA	Rs. Cr.	5.95	3.87	3.10
PAT	Rs. Cr.	1.71	0.70	0.54
EBITDA Margin	(%)	8.82	7.76	6.78
PAT Margin	(%)	2.54	1.40	1.18
ROCE	(%)	20.63	15.90	28.86
Total Debt/Tangible Net Worth	Times	0.73	0.97	1.04
PBDIT/Interest	Times	1.69	1.41	1.37
Total Debt/PBDIT	Times	2.19	3.19	3.36
Gross Current Assets (Days)	Days	266	250	347

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.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	6.00	ACUITE BB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+

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About Acuité Ratings & Research:

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