

July 19, 2021

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Key rating assessment factors

ACRA assigns BB-(RU) to Ferroni LLC, outlook Stable

The credit rating of [Ferroni LLC](#) (hereinafter, Ferroni, or the Company) is based on the very low assessment of the wholesale trade sector's risk profile. The small size of the Company and low profitability and cash flow indicators are the main factors constraining the credit rating.

Ferroni is engaged in wholesale trade of metal doors. The Company is currently the leading seller of doors in the Russian market, as well as the exclusive distributor of Chinese-made doors. The Company is present in all of Russia's regions and has separate subdivisions in 21 Russian cities and five CIS countries. The Company has around 4,000 employees. Y. A. Kuznetsov is the sole owner and beneficiary of the Company.

The very low industry risk profile assessment is based on the high volatility and cyclical nature of the wholesale trade industry, as well as low barriers to entering the market, which implies strong competition and low profitability. High risks of delayed payments are inherent to the industry.

The average assessment of the Company's market position stems from the fact that it occupies a leading position in a narrow product segment (metal front doors) in a moderately concentrated market, as well as the largest importer of Chinese-made doors. According to independent assessments, its share of the Russian market amounts to up to 30%.

The average assessment of the business profile takes into account the high cyclicity of the wholesale metal door market. The main growth factors of this market include increasing volumes of housing and commercial real estate construction and the need to renovate existing buildings. Ferroni has successfully built up long-term partnerships with major chains (for example, Leroy Merlin, Bautsentr, Petrovich) and distributors. 100% prepayment is required from new and small counterparties. There are no overdue accounts receivable and therefore the counterparty quality sub-factor is assessed as strong. The main supplier of products is the affiliated production company Ferroni Yoshkar-Ola LLC. At the same time, the execution of procurements with a shorter grace period than the one offered by the Company to its clients implies the need to raise financing for working capital.

The average assessment of the Company's business profile also takes into account the insignificant volume of exports (mainly to the CIS) in the revenue structure. The Company's main market is Russia, with the largest share of sales taking place in Krasnodar and Novosibirsk.

The low corporate governance assessment reflects the average assessment of such sub-factors for the Russian corporate sector as management strategy, risk management, and group structure. Ferroni is part of a group of companies that carries out a single development strategy, according to which production assets have been created in Yoshkar-Ola and Tolyatti. The strategy implies investing in the digital transformation of the business (deploying SAP, automating production processes, creating platforms for communicating with partners and clients). Currently, rebranding and business consolidation is taking place under the Ferroni trademark. The Company does not have any approved documents that regulate the development strategy or establish strategic milestones. The risk management system is not documented. However, Ferroni adheres to a policy of insuring cargo at every stage of the supply chain. The management structure is weak because there is no board of directors or the related key committees. According to the Charter, the CEO is the sole executive body and is elected by the general meeting of participants of the Company. The owner of the Company carries out operational management and makes key strategic decisions. Ferroni is part of a group of companies

owned by a single beneficiary, which includes production and trade assets. The structure, however, is complicated by the presence of several centers of external revenue, as well as related party transactions. The low assessment of financial transparency takes into account the lack of consolidated reporting under international standards.

The average financial risk profile assessment is based on the small size of business (weighted FFO before net interest payments and taxes is less than RUB 500 mln) and the low profitability, liquidity and free cash flow (FCF) indicators.

FFO margin before interest payments and taxes was 1.9% in 2020. ACRA expects this to grow to 3.5% in 2021 due to the launch of production at the group's enterprises. The weak liquidity assessment is due to the need to refinance short-term debts, minimal balances of funds, and low free cash flow. FCF margin in 2020 was -1.8% due to the lack of investment in fixed capital. ACRA expects cash flow to continue to be negative in 2021 and turn positive in 2022.

The leverage of Ferroni is assessed as low. In 2020, the long-term debt to FFO ratio before fixed payments stood at 5.7x, while the short-term debt to revenue ratio was 0.01. ACRA expects the ratio of long-term debt to FFO before fixed payments to fall to 4.2x in 2021 due to the need to financial the business process automation program.

The average assessment of debt service is based on the ratio of FFO before net interest payments to interest payments (2.2 in 2020). ACRA expects this indicator to grow to 3.1 within the forecast horizon.

Key assumptions

- Growth of the Russian metal door market by 24% in 2021 followed by compound annual growth rate (CAGR) in 2022–2024 at 2.4%;
- Positive FCF margin over the forecast period starting from 2022;
- No significant annual dividend payments over the forecast horizon.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- FFO margin before interest payments and taxes growing above 5%, FCF margin higher than 2% and the weighted short-term liquidity ratio exceeding 1.

A negative rating action may be prompted by:

- FCF margin turning negative;
- Ratio of FFO before net interest payments to interest payments falling below 2.5.

Rating components

SCA: bb-.

Adjustments: none.

Issue ratings

No outstanding issues have been rated.

Regulatory disclosure

The credit rating has been assigned to Ferroni LLC under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Non-Financial Corporations Under the National Scale for the Russian Federation](#) and the [Key Concepts Used by the Analytical Credit Rating Agency within the Scope of Its Rating Activities](#).

A credit rating has been assigned to Ferroni LLC for the first time. The credit rating and its outlook are expected to be revised within one year following the publication date of this press release.

The credit rating was assigned based on data provided by Ferroni LLC, information from publicly available sources, and ACRA's own databases. The credit rating is solicited, and Ferroni LLC participated in its assignment.

In assigning the credit rating, ACRA used only information, the quality and reliability of which was, in ACRA's opinion, appropriate and sufficient to apply the methodologies.

ACRA provided no additional services to Ferroni LLC. No conflicts of interest were discovered in the course of credit rating assignment.

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