Press Release

Indian Drape Private Limited

April 26, 2021

Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs.8.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB' (read as ACUITE double B)** on the Rs.8.00 Cr bank facilities of Indian Drape Private Limited (IDPL). The outlook is **'Stable'**.

Indian Drape Private Limited is a Maharashtra based company incorporated in the year 1996. The company is engaged into manufacturing of home furnishing fabrics like curtain, upholster and other decorative. These products are made with different types of fabrics like velvet, woven, knit, nylon, polyester, cotton, etc. The day to day operation of the company is managed by its directors, Mr.Jayesh Dave and Mr.Yash Dave who have an experience of more than three decades in the textile industry. The company has its manufacturing unit at Bhiwandi, Maharashtra with an installed capacity of 12 lakh meters per annum. The company has a division named J&Y Fabrics, which is used as a trademark for the orders catering small quantity. However, the bulk orders are catered under the name of Indian Drape Private Limited.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

IDPL was incorporated in the year 1996, however, the business was started in the year 1981 under a proprietorship concern headed by Mr. Jayesh Dave. Currently, the company is managed by Mr. Jayesh Dave and Mr. Yash Dave, who have been engaged in the aforementioned industry for around three decades. The extensive experience of the promoters and established track record of operation has helped the company to maintain healthy relationships with its customer and suppliers. The company has wide customer base marked by tie up with around 400 wholesalers across India thus mitigating any instance of geographical concentration risk.

Acuité believes that the company will benefit from its experienced management and long track of operation.

- **Moderate financial risk profile**

IDPL's financial risk profile is moderate marked by moderate net worth, low gearing coupled with moderate debt protection metrics and coverage indicators. The company's net worth stood at Rs.15.21Cr as on March 31, 2020 as against Rs.17.48Cr as on March 31, 2019. The decline in the net worth of the company is due to withdrawn of unsecured loan infused by the directors/promoters. The company has followed conservative financial policy; the same is reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) of 0.66 times and 0.94 times respectively as on March 31, 2020. The company, on the other, hand generated cash accruals of Rs.1.74 Cr in FY2020 as against Rs.21.0 Cr in FY2019.

The revenue of the company has declined by around 8.65 percent to Rs.21.61Cr in FY2020 from Rs.23.66Cr in FY2019. The decline in the operating income is majorly due to slow down in the economy which led to subdued demand of the products. Since the product belongs to niche segment so the drive of the demand of the product depends majorly on the economic condition. EBITDA in absolute term has been declining for the last three years under the study. EBITDA has declined to Rs.2.78Cr in FY2020 as against Rs.3.58Cr in FY2019. The PAT of the company has also declined to Rs.0.47Cr in FY2020 as against Rs.0.81Cr in FY2019.

The company's profitability margin has also deteriorated in FY2020 as against FY2019. The decline in the profitability margin is due to high valued products that they manufacture. Every year the company keeps on adding new products for which the direct expenses increases which impacts the margin of the company. For every new product is manufactured, the company goes for sampling process which impacts the profitability margin of the company. The operating and the profit margin stood at 13.03 percent and 2.19 percent respectively in FY2020 as against 15.12 percent and 3.42 percent in FY2019.

The decline in the profitability level, coupled with low debt level, has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.17 times and 2.80 times respectively as against 0.24 times and 2.96 times in FY2019, respectively. The debt service coverage ratio stood 1.94 times in FY2020 as against 2.00 times in FY2019. The Debt-EBITDA ratio stands at 3.53 times in FY2020 against 2.43 times in FY2019.

In January 2020, due to some short circuit issue, fire broke out in the factory leading to damage of some machines. The company has already claimed an insurance of around Rs.2.71Cr which is yet to be received from the insurance company.

In the FY2021, the company has generated revenue of around Rs.10.88Cr (Est.) with a profit of around Rs.0.30Cr (Est.). The decline in the operating performance of the company is due to subdued performance of the industry along with decline in the demand of the product in view of Covid-19 pandemic. However, the company is able to maintain its EBITDA in absolute term which amounts to Rs.2.30Cr (Est.). In FY2021, the margins are expected to remain at a higher side since the procurement of the raw material was quite less in FY2021. The inventory and the debtor collection period will remains at a higher side in FY2021 as the company had to deliver some orders which were due in April, 2021.

Acuite believes the financial risk profile of the company will remain moderate in the medium term on account of no major debt funded capex in near to medium term.

Weaknesses

- **Working Capital operation is intensive in nature**

IDPL's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 331 days in FY2020 as against 241 days in FY2019. The working capital cycle day remains elongated on account of higher inventory holding period and debtor collection period. The working capital management remains elongated due to the nature of the product that is manufactured since in every steps of the furnished fabric manufactured, it includes multiple steps wherein every step there is some value addition which subsequently leads to increase in the processing time. The inventory holding period stood at 165 days as on March 31, 2020 as against 166 days as March 31, 2019. The debtor collection period stood at 136 days as on March 31, 2020 as against 90 days as on March 31, 2019. This is due to delay in the realization of payment from their customers in view of Covid-19 pandemic. Earlier the company used to offer a credit term of around 45-120 days to its customer; however currently, they are offering a credit period of around 90-150 days to its customer. The credit payment period has also elongated to 88 days as on March 31, 2020 as against 16 days as on March 31, 2019. The increase in the credit payment period is due to increase in the procurement of fabrics in the month of March, 2020. The company procures the fabrics at a bulk amount when there is decline in the price of the yarn which subsequently leads to decline in the prices of the fabrics. The average bank limit utilization stood low at around 44.89 percent for six months ended March 31, 2021, while its peak utilization was high at around 80.50 percent during the same period.

Acuite expects the working capital management to remain intensive over the medium term on account of higher inventory holding and debtor collection period.

- **Highly Competitive and fragmented industry**

IDPL operates in a highly competitive and fragmented textile industry wherein the product belongs to niche segment. Presence of several organized and unorganized players in the market limits the bargaining power of the company. However, long track record of operation and extensive experience of the promoters helps the company in mitigating the risk to a larger extent.

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.74Cr in FY2020, while its' maturing debt obligation were Rs.0.40Cr for the same period. The cash accrual of the company is estimated to remain around Rs.1.40Cr to Rs.2.10Cr during 2021-23 against repayment obligations of around Rs.0.30Cr to Rs.0.60Cr during the same period. The company's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 331 days in FY2020 as against 241 days in FY2019. The average bank limit utilization stood low at around 44.89 per cent for six months ended March, 2021. The company maintains unencumbered cash and bank balances of Rs.0.06Cr as on 31 March 2020. The current ratio of the company has declined to 2.13 times as on 31 March 2020 from 2.65 times as on March 31, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals to meet its maturing debt obligation.

Rating Sensitivities

- Significant and sustained growth in operating revenues while maintaining the profitability margin
- Any further deterioration in the working capital cycle will further impact the financial risk profile, thereby impact credit risk profile

Outlook: Stable

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.74Cr in FY2020, while its' maturing debt obligation were Rs.0.40Cr for the same period. The cash accrual of the company is estimated to remain around Rs.1.40Cr to Rs.2.10Cr during 2021-23 against repayment obligations of around Rs.0.30Cr to Rs.0.60Cr during the same period. The company's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 331 days in FY2020 as against 241 days in FY2019. The average bank limit utilization stood low at around 44.89 per cent for six months ended March, 2021. The company maintains unencumbered cash and bank balances of Rs.0.06Cr as on 31 March 2020. The current ratio of the company has declined to 2.13 times as on 31 March 2020 from 2.65 times as on March 31, 2019.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals to meet its maturing debt obligation.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	21.61	23.66
PAT	Rs. Cr.	0.47	0.81
PAT Margin	(%)	2.17	3.42
Total Debt/Tangible Net Worth	Times	0.66	0.51
PBDIT/Interest	Times	2.80	2.96

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Feb-2020	Cash Credit	Long Term	6.00	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	1.03	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
	Proposed Bank Facility	Long Term	0.97	ACUITE BB/Stable (Downgraded from ACUITE BB+/Stable)
28-Dec-2018	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.60	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.38	ACUITE BB+ (Withdrawn)
	Proposed Cash Credit	Long Term	0.40	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.09	ACUITE BB+ (Withdrawn)
	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Reaffirmed)

17-Apr-2018	Term Loan	Long Term	0.31	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	0.38	ACUITE BB+/Stable (Reaffirmed)
	Term Loan	Long Term	1.09	ACUITE BB+/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	0.22	ACUITE BB+/Stable (Reaffirmed)

*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 (Reaffirmed)
Term Loan	Not Available	9.25%	May 31, 2022	0.45	ACUITE BB/Stable (Reaffirmed)
Term Loan- GECL-I	August 31, 2021	7.85%	July 31, 2024	1.08	ACUITE BB/Stable (Assigned)
Term Loan-GECL-II	January 12, 2021	6.85%	June 12, 2022	0.47	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Kumar Abhisek Analyst - Rating Operations Tel: 011-49731308 kumar.abhisek@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,666 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.