

Press Release

ORVI DESIGN STUDIO

December 18, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 5.85 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 5.85 crore bank facilities of ORVI DESIGN STUDIO. The outlook is '**Stable**'.

The Jaipur-based Orvi Design Studio (ODS), a partnership firm was established in 2011 by Mr. Sanjeev Agarwal, Mr. Pawan Khandelwal and Mrs. Sheela Agarwal. The firm is engaged in the manufacture and export of mosaic tiles, wall ledgers and handcrafted stone articles for flooring and walls.

Key Rating Drivers

Strengths

•Healthy relations with clients, stable operating margins:

The firm has long term relations with its clients. ODS caters to EP Stone, USA, Marmoles Punte, Mexico, Advon Co. Ltd, Japan and Academic Tiles, Australia. The firm has been able to maintain its operating margins at 20.54 per cent in FY2016-17 and 19.89 per cent in FY2015-16.

•Experienced management

ODS was established as a partnership firm in 2011 by Mr. Sanjeev Agarwal, Mr. Pawan Khandelwal and Mrs. Sheela Agarwal. The promoters have more than a decades experience in the said line of business.

•Moderate financial riskprofile

ODS has moderate financial risk profile marked by tangible networth of Rs.7.24 crore as on 31 March, 2017 as against Rs.5.80 crore as on 31 March, 2016. The gearing stood at 0.75 times as on 31 March, 2017 as against 0.87 times as on 31 March, 2016. The total debt of Rs.5.41 majorly comprises term loan of Rs.2.83 crore and working capital loan of Rs. 2.58 crore as on 31 March, 2017. ODS has a modest interest coverage ratio of 1.71 times in FY2016-17 as against 2.15 times in FY2015-16. The TOL/TNW stood at 1.07 times as on 31 March, 2017 as against 1.10 times as on 31 March, 2016. Going forward, the debt protection metrics is expected to remain moderate in the medium term in the absence of debt funded capex plan.

Weaknesses

•Small scale of operations

The firm has small scale of operations marked by top line of Rs.7.63 crore for FY2017 as against Rs.7.56 crore for FY2016. However, the firm has already achieved operating income of Rs.4.31 crore from April 2017 to Oct 2017. Further, the firm has an order book of Rs.1.25 crore to be executed by Jan 2018.

•Decline in netprofitability

The net profit margins declined during the period under study to 0.61 percent in FY2017 from 3.47 in FY2016. This was mainly on account of increase in interest expenses as a result of an additional term loan taken for purchase of machinery of Rs.0.85 crore in FY2016-17.

•Highly fragmented and competitive industry

ODS operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the unorganised sector limits its bargaining power with customers.

•Susceptibility of profit margins to volatility in raw material prices, foreign exchange fluctuation risk

The operating profitability is susceptible to volatility in raw material prices. Raw materials are procured locally and are also imported from Italy and China. Exports to USA, Japan, Mexico and Australia constitute 85 percent. As a result the firm is exposed to foreign exchange fluctuation risk.

•Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Asset (GCA) days of 244 for FY2016-17 (Provisional) compared to 202 for FY2015-16. This is majorly on account of high inventory days and debtor days of 183 and 76 for FY2016-17 (Provisional) as against 119 days and 101 in FY2015-16.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of ODS.

Outlook: Stable

SMERA believes that ODS will maintain a Stable outlook and benefit over the medium term from its long standing presence in the ceramic tiles industry and extensive experience of its promoters. The outlook may be revised to 'Positive' if the firm scales up revenue and profitability along with improvement in profit margins. Conversely, the outlook may be revised to 'Negative' if the capital structure and margins further deteriorate.

About the Rated Entity - Key Financials

For FY2016-17, ODS reported net profit of Rs.0.05 crore on operating income of Rs.7.63 crore compared to net profit of Rs.0.26 crore on operating income of Rs.7.56 crore in FY2015-16. The net worth stood at Rs.7.24 crore as on 31 March, 2017 compared with Rs.5.80 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Sep-2016	Term Loan	Long Term	INR 3.25	SMERA BB- / Stable
	Packing Credit	Short Term	INR 0.75	SMERA A4+
	Post Shipment Credit	Short Term	INR 1.85	SMERA A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	2.55	SMERA BB- / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A4+
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A4+
Proposed	Not Applicable	Not Applicable	Not Applicable	0.30	SMERA A4+

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ABOUT SMERA

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