

Press Release

OMEGA DESIGNS PRIVATE LIMITED

March 06, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) and short term rating of '**SMERA A3**' (**read as SMERA A three**) on the Rs. 20.00 crore bank facilities of OMEGA DESIGNS PRIVATE LIMITED. The outlook is '**Stable**'.

ODPL, incorporated in 1994, promoted by Mr. Dilip Dugar and his wife Mrs. Kavita Dugar is engaged in the trading and retailing of readymade garments for Kids with age group of 1 to 14 years under its brand names 'NautiNati' and 'Natilene'. The company has its presence across channels - including retail (company owned and franchise) stores, e-commerce websites and departmental store chains. ODPL operates in 160 locations (Pan India basis), has 16 exclusive stores of NautiNati, out of which 5 stores are company owned and 11 are franchise based stores. Major customers include Shoppers stop, Future Lifestyle Fashion Limited, Reliance trends, Central, Amazon, Myntra, Jabong, Flipkart among others.

Key Rating Drivers

Strengths

• Long track-record of operations and well-established brand

ODPL was incorporated in the year 1994 and until September 2015 used to undertake jobwork activity for its flagship entity Omega Designs (engaged in the exports of readymade garments) post which is now engaged in retailing of readymade garments under its own brand name. The company is promoted by Mr. Dilip Dugar who has over two decades of experience in the garment business in India. ODPL's board of directors also includes Mr. Krishan Kant Rathi nominee director from India Nivesh Venture Capital who has nearly three decades of experience in the industry. Its established record has helped the company maintain healthy relations with its customers and suppliers.

• Healthy Capitalization on account of Infusion of Private Equity Funds

ODPL has received Rs.7.00 crore of quasi-equity capital from India Nivish Venture Capital Fund in the form of compulsorily convertible debentures in FY2015-16 and FY2016-17. These were converted into Equity and additional Rs. 8.00 crore was infused subsequently in January, 2017 to March, 2017. During the current year an additional investment of Rs.3 crore has been made and Rs.2 crore will be brought in before March 2018. The proceeds from the issue of these instruments is expected to be utilized towards expansion of the direct retail presence of ODPL and increase its geographical penetration in Tier-I and Tier II cities. The increased capital resulting in healthy growth in the company's networth is expected to substantially reduce ODPL's financing costs and working capital borrowings.

• Adequate financial risk profile

ODPL has moderate financial risk profile marked by tangible net worth of Rs. 18.04 crore as on 31 March 2017 as against Rs. 9.91 crore as on 31 March 2016. The adjusted gearing stood at 0.63 times as on 31 March 2017 as against 1.13 times as on 31 March 2016. Total debt of Rs. 11.30 crore consists of term loans of Rs. 1.02 crore, interest bearing unsecured loans from promoters/ directors of Rs. 0.91 crore, working capital borrowings of Rs. 9.36 crore as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 1.47 times for FY2017 as against 1.66 times in FY2016. The Total outside Liabilities/Tangible Net Worth

(TOL/TNW) stood at 1.04 times as on 31 March 2017 as against 1.91 times as on 31 March 2016. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.05 times in FY2017 against 0.06 times in FY2016.

Weaknesses

• Working Capital Intensive Operations

Operations of the company are highly working capital intensive marked by high Gross Current Asset (GCA) of 354 days in FY2017 as against 344 days in FY2016. The GCA days are mainly on account of high receivable days of 301 in FY2017 which increased from 222 in FY2016. Most retailers make payments to ODPL only after their stocks are sold. The working capital limits of the company are therefore fully utilized. SMERA believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• Declining Profitability Margins

The profitability margins were inconsistent from FY2015 to FY2017. The EBITDA margin stood at 8.45 percent in FY2017 as against 8.24 percent in FY2016 and 5.08 percent in FY2015. PAT margin of the company declined significantly from 1.78 percent in FY2016 to 0.51 percent in FY2017. This is mainly on account of stiff competition from both the offline and online players in the fashion and apparel industry as also the stoppage of its manufacturing activity.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of ODPL.

Outlook: Stable

SMERA believes that ODPL will maintain a stable risk profile over the medium term on account of its long track record in apparel business and adequate financial position driven by recent capital infusion. The outlook may be revised to Positive in case of sustained and significant growth in operating income while improving its profitability margins. The outlook may be revised to Negative in case of decline in revenue and profit margins or deterioration in the capital structure on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	32.65	25.38	18.37
EBITDA	Rs. Cr.	1.66	2.09	1.55
PAT	Rs. Cr.	0.17	0.45	0.31
EBITDA Margin	(%)	5.08	8.24	8.45
PAT Margin	(%)	0.51	1.78	1.68
ROCE	(%)	6.39	12.85	27.16
Total Debt/Tangible Net Worth	Times	0.63	1.13	3.41
PBDIT/Interest	Times	1.47	1.66	1.64
Total Debt/PBDIT	Times	5.63	4.89	4.89
Gross Current Assets (Days)	Days	354	344	339

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>
- Trading Entities - <https://www.smera.in/criteria-trading.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)

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	7.00	SMERA BBB- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.80	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.86	SMERA BBB- / Stable
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	0.68	SMERA BBB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.66	SMERA BBB- / Stable

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ABOUT SMERA

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