

Press Release

Omega Designs Private Limited

April 09, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Negative (Downgraded from ACUITE BBB- /Stable)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) from '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 20.00 crore bank facilities of Omega Designs Private Limited (ODPL). The outlook is '**Negative**'.

The downgrade is in view of significant deterioration in operating performance reflected by revenue decline, continuous profitability pressures and elongation in working cycle. Operating revenues declined to Rs.28.16 crore in FY2018 against Rs.32.65 crore in FY2017. Profitability during the same period was also affected reflected by operating losses of Rs.5.65 crore in FY2018 against operating profit of Rs.1.66 crore in FY2017, this is mainly on account of sales return from some of the key distributors at the time of GST implementation. Further, the rating is also due to deterioration in the working capital cycle during the past two fiscals as indicated by an increase in Gross Current Asset (GCA) days to 464 as on March 31, 2018 from 354 as on March 31, 2017.

ODPL, incorporated in 1994 by Mr. Dilip Dugar and his wife, Mrs. Kavita Dugar, is engaged in the trading and retailing of readymade garments for Kids in 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 10 exclusive stores of NautiNati, out of which 5 stores are company owned and 5 are franchise based stores. Major customers include Shoppers stop, Future Lifestyle Fashion Limited, Reliance trends, Central, Amazon, Myntra, Jabong and Flipkart, among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the ODPL for arriving at the rating.

Key Rating Drivers

Strengths

- **Long track-record of operations**

ODPL was incorporated in 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, the company 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. Puneet Tibrewala (Nominee Director from India Nivesh Venture Capital). ODPL's established record has helped the company maintain healthy relations with its customers and suppliers.

- **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.5.00 crore has been made in the form of Zero

Coupon Compulsory Convertible Debentures. The proceeds from the issue of these instruments are expected to be utilised towards working capital needs of the company.

Weaknesses

- **Weak financial risk profile**

ODPL has below average financial risk profile marked by declining networth which stood at Rs.17.23 crore as on March 31, 2018 against Rs.18.04 crore as on March 31, 2017. The company's gearing (debt to equity) ratio stood at 0.84 times as on March 31, 2018 against 0.63 times as on March 31, 2017. The total debt of Rs.14.50 crore as on March 31,2018 comprises long term debt of Rs.3.02 crore, short term working capital borrowings of Rs.11.48 crore. The Net cash accrual to total debt stood at (0.37) times in FY2018 against 0.05 times in FY2017. Acuité believes that financial risk profile of ODPL will continued to remain below average in the near to medium term.

- **Elongation in working capital cycle**

Operations of the company are highly working capital intensive marked by high Gross Current Asset (GCA) of 464 days in FY2018 as against 354 days in FY2017. The GCA days are mainly dominated by high receivable days of 320 in FY2018 against 301 in FY2017. The inventory holding period stood at 108 days in FY2018 against 49 days in FY2017. The working capital limits of the company are, therefore, fully utilised. Acuité 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 declined during the year on account of sales return at the time of GST implementation. The EBITDA margin stood at (20.06) per cent in FY2018 as against 5.08 per cent in FY2017 and 8.24 per cent in FY2016. The stretch in profitability is expected to continue in the near to medium term on account moderation in operating income and increasing operating expenses.

Liquidity Position:

ODPL has stretched liquidity as evinced from its declining revenues, operating losses, elongated working capital cycle and deteriorating financial risk profile. Current ratio stood at 1.92 times as on March 31, 2018. The unencumbered cash and bank balance stood at Rs.0.39 crore as on March 31, 2018. Working capital limits remained fully utilised for six months ended February 31, 2019.

Outlook: Negative

Acuité believes that the outlook of ODPL will remain 'Negative' over the medium term owing to decline in profitability, debt coverage indicators and deterioration in business risk profile. The rating may be further downgraded in case of further deterioration in operating profitability or elongation of working capital cycle. Conversely, the outlook may be revised to 'Stable' in case the entity registers significant and sustainable improvement in operating profit coupled with improvement in operating income, financial risk profile and the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	28.16	32.65	25.38
EBITDA	Rs. Cr.	-5.65	1.66	2.09
PAT	Rs. Cr.	-5.81	0.17	0.45
EBITDA Margin	(%)	-20.06	5.08	8.24
PAT Margin	(%)	-20.65	0.51	1.78
ROCE	(%)	-19.98	6.39	19.48
Total Debt/Tangible Net Worth	Times	0.84	0.63	1.13
PBDIT/Interest	Times	-3.01	1.47	1.66
Total Debt/PBDIT	Times	-2.67	5.63	4.89
Gross Current Assets (Days)	Days	464	354	344

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Mar-2018	Cash Credit	Long Term	7.00	ACUITE BBB- / Stable (Assigned)
	Secured Overdraft	Long Term	1.80	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	0.86	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)
	Dropline Overdraft	Long Term	0.68	ACUITE BBB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	7.66	ACUITE BBB- / Stable (Assigned)

*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	ACUITE BB / Negative (Downgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE BB / Negative (Downgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE BB / Negative (Downgraded)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	0.68	ACUITE BB / Negative (Downgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Downgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.66	ACUITE BB / Negative (Downgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Manmיתה Sodhi Analyst - Rating Operations Tel: 022-49294024 manmיתה.sodhi@acuiteratings.in	

About Acuité Ratings & Research:

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