

Press Release

Innocoat Systems India Private Limited

27 July, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 5.25 Cr.
Long Term Rating	ACUITE BB-/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 5.25 crore of bank facilities of Innocoat Systems India Private Limited (ISIPL). The outlook is **'Stable'**.

Innocoat Systems India Private Limited (ISIPL) was established in the year of 2008 by Mr. Dilip Kumar Atoor and Mr. Sindhu Dilip Kumar as a private limited company engaged in powder coating on aluminium profiles such as door, windows, and channel among others. The company has its manufacturing facility in Bangalore, Karnataka.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of ISIPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

ISIPL benefits from its experienced management. Mr. Dilip Kumar Atoor, Managing Director, has more than a decade experience in the aluminium industry. The other directors of the company Mr. Sidhu Dilip Kumar also have extensive experience in a similar industry. This helps the company to establish a healthy relationship with the customers as well as with their suppliers.

Moderate financial risk profile

The moderate financial risk profile of the company is marked by low net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood moderate at Rs.6.93 crore in FY2019 as compared to Rs.5.63 crore in FY2018. This improvement in network is mainly due to the retention of current year profit. The gearing of the company stood comfortable at 0.41 times as on March 31, 2019 when compared to 0.29 times as on March 31, 2018. The total debt of Rs 2.87 crore in FY2019 comprises of long term loan of Rs.1.92 crore, short term loan of Rs.0.92 crore, and an unsecured loan from promoters of Rs.0.03 crore. Interest coverage ratio (ICR) stood at 6.20 times in FY2019 as against 5.64 times in FY 2018. The debt service coverage ratio stood at 3.33 times in FY2019 as against of 2.32 times in FY2018. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.61 times in FY2019 as compared to 0.49 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will be sustained at the current levels backed by modest accruals and no major capex plans.

Weaknesses

Working capital intensive nature of the operation

The working capital intensive nature of operation of the company is marked by high gross current asset (GCA) days of 168 days in FY2019 as compared to 116 days in FY2018. This high GCA days is emanates from the high debtor days of 96 in FY2019 as compared to 90 days in the previous year. The GCA days of the company has further increased to 177 days in FY2020 (Prov.). This is on account of a further increase in debtor days to 107 in FY2020 (Prov.) as compared to the previous year. The high debtor days are mainly due to elongated receivables from real estate and infrastructure companies. The inventory days are comfortable at 68 days in FY2019 as compared to 22 days in the previous year. Moreover, the inventory days of the company is also stood comfortable at 46 days in FY2020 (Prov.).

Moderate scale of operation

Though the company have started its operation from 2008, the revenue of the company stood moderate at Rs.18.31 crore in FY2019 as compared to Rs.17.70 crore in the previous year. The revenue of the company has further increased and stands moderate at Rs.22.39 crore in FY2020 (Prov.).

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Deterioration in the liquidity position of the company

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals of Rs.1.74 crore as against Rs.0.23 crore of yearly debt obligations in FY2019. The cash accruals of the company are estimated to remain in the range of around Rs. 2.74 crore to Rs. 2.69 crore during 2020-22 against Rs.0.45 crore of repayment in FY2021 and Rs. 0.62 crore in FY2022, respectively. The working capital intensity of the company is marked by Gross Current Asset (GCA) days of 177 days in FY2020 (Prov.). The bank limit is fully utilized by the company for the last six months ended in June 2020. The company has also applied for Covid19 Emergency Credit Line of Rs. 0.50 crore, which is yet to be sanctioned by the bank. The said loans are to be repaid over a period of 4 years with a 1 year moratorium. Hence Acuite believes that this short term funding will ease the liquidity position of the company. Moreover, the company has availed of a moratorium on their CC & TL facilities till the end of August 2020. The liquidity position of the company post the moratorium would be a key credit monitorable. Acuite also believes that the liquidity of the company is likely to remain adequate on account of moderate cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes that ISIPL will maintain a stable outlook in the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenues and net cash accruals while maintaining healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability, or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	18.31	17.70
PAT	Rs. Cr.	1.30	1.24
PAT Margin	(%)	7.11	6.98
Total Debt/Tangible Net Worth	Times	0.41	0.59
PBDIT/Interest	Times	6.20	5.64

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

None

Any other information

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
08-May-2019	Cash Credit	Long Term	1.00	ACUITE BB-/Stable (Upgraded)
	Term Loan	Long Term	2.48	ACUITE BB-/Stable (Upgraded)
	Proposed Long Term Loan	Long Term	0.12	ACUITE BB-/Stable (Upgraded)
	Letter of Credit	Short Term	1.45	ACUITE A4+ (Upgraded)
	Bank Guarantee	Short Term	0.20	ACUITE A4+ (Upgraded)
30-Nov-2018	Cash Credit	Long Term	1.00	ACUITE B+ (Indicative)
	Term Loan	Long Term	2.48	ACUITE B+ (Indicative)
	Proposed Long Term	Long Term	0.12	ACUITE B+ (Indicative)
	Letter of Credit	Short Term	1.45	ACUITE A4 (Indicative)
	Bank Guarantee	Short Term	0.20	ACUITE A4 (Indicative)
22-Sep-2017	Cash Credit	Long Term	1.00	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.48	ACUITE B+/Stable (Assigned)
	Proposed Long Term	Long Term	0.12	ACUITE B+/Stable (Assigned)
	Letter of Credit	Short Term	1.45	ACUITE A4 (Assigned)
	Bank Guarantee	Short Term	0.20	ACUITE A4 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Reaffirmed)
Term Loan	Not Available	Not Applicable	April 2023	2.48	ACUITE BB-/Stable (Reaffirmed)
Proposed Long Term	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.45	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Reaffirmed)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

Acuite 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 6,000 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.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.