

Press Release

Ishape Appliances Private Limited

June 25, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B-**' (**read as ACUITE B minus**) on the Rs. 14.00 crore bank facilities of Ishape Appliances Private Limited. The outlook is '**Stable**'.

Ishape Appliances Private Limited (IAPL) was established as a partnership in 1976 (formerly known as M/s Nik-Cool) and later, was converted to private limited entity in August 2017 by Mr. Nakul Baheti and Mrs. Rama Baheti. The company is engaged in manufacturing and trading of steel furniture and precision cooling machines. The product portfolio includes evaporative steel coolers, air washers and industrial coolers with the brand name of 'Sheetal Coolers'. IAPL has 200 dealers spread across Madhya Pradesh, Chhattisgarh, Gujarat, Rajasthan, Maharashtra, Haryana, Uttar Pradesh and Delhi.

Key Rating Drivers

Strengths

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

Ishape Appliances Private Limited (IAPL) was established as a partnership in 1976 (formerly known as M/s Nik-Cool) by Mr. Raman Baheti (Father of Mr. Nakul Baheti) and was converted to private limited entity in August 2017 by Mr. Nakul Baheti and Mrs. Rama Baheti. Thus, the directors have more than a decade of experience in the same line of business and the company has established track record of operations for more than four decades. Acuité believes that the company will benefit by the established track record of operations and experienced management.

Weaknesses

- **Small scale of operations and fluctuating profitability margins**

IAPL has small scale of operations marked by operating income of Rs.3.79 crore in FY2017 as against Rs.3.45 crore in FY2016 and Rs.2.30 crore in FY2015, despite being into similar line of business for more than four decades. Further, the operating income for FY2018 (Provisional) stood at Rs.4.51 crore. IAPL has reported fluctuating profitability margins during the period FY2015 to FY2017 under the study. The EBITDA margin stood at 21.43 percent in FY2017 as against 25.89 percent in FY2016 and 11.92 percent in FY2015. Further, the EBITDA margin is estimated to range between ~18 to 19 percent for FY2018 (Provisional). This majorly is on account of fluctuation in raw material prices. The net profit margins stood at 6.05 percent in FY2017 as against 13.24 percent in FY2016. The reason for fall in net profit margins is due to increase in interest cost in FY2017 over FY2016. Acuité believes the ability of the company to scale up its operations and maintain its profitability margins in such a highly competitive industry will be crucial for IAPL.

- **Average financial risk profile**

The financial risk profile of the company is average marked by average debt protection metrics. The tangible net worth stood at Rs.3.25 crore as on 31 March, 2017 as against Rs.1.64 crore as on 31 March, 2016. The gearing stood at 1.08 times as on 31 March, 2017 as against 2.61 times as on 31 March, 2016. The total debt of Rs.3.51 crore outstanding as on 31 March, 2017 comprises long term secured loan of Rs.2.34 crore from the bank and Rs.1.17 crore as unsecured loans from the promoters. Interest Coverage Ratio stood at 1.75 times in FY2017 as against 2.63 times in FY2016. The DSCR is expected to range between ~1.75 to 2.00 times over the medium term. The net cash accruals have declined to Rs.0.35 crore in FY2017 as against Rs.0.55 crore in FY2016 due to decline in the net profits in FY2017 over FY2016.

• **Working capital intensive operations**

The operations of IAPL are working capital intensive marked by working capital cycle of 396 days in FY2017 as against 435 days in FY2016. This is majorly on account of high receivable days of 112 in FY2017 as against 111 days in FY2016. The supplier days are also stretched at 404 in FY2017 as against 200 days in FY2016. The liquidity position of IAPL is stretched marked by Gross Current Assets of 828 days in FY2017 as against 679 days in FY2016. The inventory holding period is high at 688 days in FY2017 as against 525 days in FY2016. The average bank limit utilisation stood at 70 percent for the last six months ended April 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of IAPL to arrive at the rating.

Outlook: Stable

Acuité believes that the outlook on IAPL will remain 'Stable' owing to the experience of the promoters in the appliance industry. The outlook may be revised to 'Positive' if the company is able to keep up the growth in operations along with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial risk profile, due to higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	3.79	3.45	2.30
EBITDA	Rs. Cr.	0.81	0.89	0.27
PAT	Rs. Cr.	0.23	0.46	0.06
EBITDA Margin	(%)	21.43	25.89	11.92
PAT Margin	(%)	6.05	13.24	2.76
ROCE	(%)	10.92	17.59	16.54
Total Debt/Tangible Net Worth	Times	1.08	2.61	2.91
PBDIT/Interest	Times	1.75	2.63	1.41
Total Debt/PBDIT	Times	4.33	4.79	8.45
Gross Current Assets (Days)	Days	828	679	632

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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
Term loans	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE B- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B- / Stable

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Namita Palve Analyst - Rating Operations Tel: 022-67141129 namita.palve@acuiteratings.in	

About Acuité Ratings & Research:

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