

Press Release

Oditi Appliances LLP (OAL)

June 16, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 24.00 Cr.
Short Term Rating	ACUITE BB /Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) on the Rs. 24.00 Crore bank facilities of Oditi Appliances LLP (OAL). The outlook is '**Stable**'.

OAL is a partnership firm incorporated on January 17, 2017 under the Limited Liability Partnership Act, 2008. The firm is engaged in manufacturing of ceiling fans, electric and gas geysers, LPG stoves and other household appliances. The firm was started as proprietorship firm in 2002. In FY2017 the firm changes its constituency from a proprietorship firm to a partnership firm. As of 2019, all the proprietorship firm are merged into a single partnership firm i.e. Oditi Appliances LLP.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operation and experience management:**

OAL is promoted by Mr. Sanjay Pahal who is a well-known player in the Household appliances industry having an experience of around 2 decades. The firm has an established track record with more than 18 years of operations. The top management is ably supported by a well-qualified and experienced second line of management.

The firm was started as proprietorship firm in 2002 as trader for gas water heater. The firm used to import the product and then further sell it to domestic market. In 2004-05, firm established its first manufacturing unit and started manufacturing gas water heater. In FY2017 the firm changes its constituency from a proprietorship firm to a partnership firm.

As of now, the firm deals in more than 15 types of household appliances. The firm have 5 manufacturing units located at Bawana (Delhi), Parwanoo (H.P), Kundli (Haryana), Guwahati (Assam) & Sanpera (Haryana).

Acuité believes that the firm will continue to benefit from its established presence in the aforementioned industry and the promoter's demonstrated ability to scale up the operations across various cycles.

- **Reputed clientele and Improvement in revenue**

The firm have built up a portfolio of reputed clientele which includes Hindware And Sanitary India Limited, Vishwa Electrotech Limited (Polar), Roca Bathrooms Products Private Limited (Parryware), Summercool Home Appliance Limited, Thermocool Home Appliances Limited, Butterfly Gandhi Mathi Private Limited etc. The firm have been associated for more than 10 years with these clients.

The established position has helped the firm maintain long standing relations with its customers and suppliers. OAL reported healthy growth in revenues at a Compound Annual Growth Rate (CAGR) of around 16 percent during the last three years ending FY2019. The operating income increased to Rs. 99.62 Crore in FY2019 from Rs.63.00 Crore in FY2016. The firm have achieved a revenue of ~Rs.100 Crore in FY2020. The growth in revenue is majorly driven by continuous increase in orders from its customers and ability to utilize its enhanced capacity.

Going forward, Acuité believes that with an ongoing growth in demand and penetration into new markets, the business risk profile is expected to improve further over the medium term.

Weaknesses

- **Working capital intensive operations**

The operations are highly working capital intensive marked by Gross Current Asset (GCA) of 197 days in FY2019; this is majorly on account of high debtor levels in FY2019 which stood at 114 days and high inventory level which stood at 83 days. High GCA has led to high utilization of its working capital limits at around ~95 percent for the last nine months ended December, 2019. Acuité believes firm's ability to manage its working capital cycle will remain a key monitorables.

- **Below average financial risk profile**

The financial risk profile is below average marked by low net worth and debt protection measures and high gearing. The net worth of the firm is low at Rs.10.96 Crore as on 31 March, 2019 as against Rs.4.77 Crore as on 31 March, 2018. The firm have unsecured loans of Rs.5.50 Crore from partners and relatives which is treated as quasi equity as the amount will be sustain in the business in the longer run. The gearing of the firm stood high at 1.13 times as on March 31, 2019 as against 2.96 times as on March 31, 2018. Total debt of Rs.12.34 Crore consists of working capital facility of Rs.7.64 Crore and long term borrowings of Rs.4.70 Crore as on 31 March, 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 5.26 times as on 31 March, 2019 as against 7.66 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.22 times in FY2019 as against 2.17 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on 31 March, 2019 as against 0.09 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 1.02 times in FY2019 as against 2.17 times in FY2018. Acuité believes that the financial risk profile of firm will gradually improve in the near future.

Outlook: Stable

Acuité believes that OAL will maintain a 'Stable' outlook over the medium term on account of its established operations and extensive experience of the promoters in the fertilizer industry. The outlook may be revised to 'Positive' in case the firm sustains the growth in its revenues and profitability while maintaining the capital structure. Conversely, the outlook may be revised to 'Negative' in case deterioration in financial risk profile and/or further deterioration in its working capital management leading to deterioration of its financial risk profile and liquidity.

Material Covenant

None

Rating sensitivity

- Significant growth in operating income and profitability
- Deterioration in working capital management

Liquidity position: Adequate

The firm has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.87 Crore in FY2019 as against debt obligation of Rs.1.20 Crore for the same period. The cash accruals of the firm are estimated to be in the range of Rs.2.14-2.87 during 2020-22 while its repayment obligation are estimated to be around Rs. 0.98 Crore each year for the same period. The firm's operations are high working capital intensive as marked by gross current asset (GCA) days of 197 in FY 2019. The cash credit limit in the firm remains fully utilized at ~95 percent during the last 9 months period ended December, 2019. The firm maintains cash and bank balances of Rs.0.11 Crore as on March 31, 2019. The current ratio of the firm stand at 0.99 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of sufficient net cash accrual against its repayments obligation over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	99.62	21.60
PAT	Rs. Cr.	0.61	0.07
PAT Margin	(%)	0.62	0.32
Total Debt/Tangible Net Worth	Times	1.13	2.96
PBDIT/Interest	Times	2.22	2.17

Any other information

Not Applicable

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 (Up to 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		ACUITE BB/Stable (Assigned)
Term Loan	31-03-2017	Not Applicable	31-10-2024	1.46	ACUITE BB/Stable (Assigned)
Term Loan	31-03-2017	Not Applicable	31-10-2024	4.68	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.86	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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