

Press Release

Oditi Appliances LLP

July 20, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 24.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its 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**'.

Reason for rating reaffirmation

The rating reaffirmation factors in the comfort derived from established track record of operations, experienced management, reputed clientele, stable operations in FY2021 despite covid-19 induced lockdown and low customer and supplier concentration risk on the revenue profile. These rating strengths are partially offset by the firm's working capital intensive nature of operations, below-average financial risk profile and stretched liquidity position of the firm.

About the firm

Delhi based 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 changed its constituency from a proprietorship firm to a partnership firm. As of FY2021, all the proprietorship firms are merged into a single partnership firm, i.e. Oditi Appliances LLP.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of OAL to arrive at the rating. For the assessment of financial risk profile of the firm, the unsecured loans (USL) from the partners and family members has been treated as quasi equity and is expected to remain in the business over a long term.

Key Rating Drivers

Strengths

- **Extensive industry experience of the partners, established track record, and decent order book providing near term revenue visibility**

OAL is promoted by Mr. Sanjay Pahal having an experience of around 2 decades in household appliances industry. The firm has an established track record with nearly 2 decades 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 and was engaged in activity of importing the products and then further selling it in the 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 3 manufacturing units located at Kundli (Haryana), Guwahati (Assam) & Sanpura (Haryana). OAL's revenue visibility is further accentuated by a moderate unexecuted order book of about Rs.6.64 Cr as on June 30, 2021 to be executed in Q2 of FY2022, thereby, providing near term revenue visibility. Acuité believes that the partner's extensive industry experience in domestic appliances industry and established relationships with its customers and suppliers and moderate unexecuted order book will aid OAL's business risk profile over the medium term.

- **Reputed clientele; resilient amidst covid-19 pandemic**

The firm has built up a portfolio of reputed clientele which includes V-Guard Industries, Orient Electric Limited, Hindware and Sanitary India Limited, Vishwa Electrotech Limited (Polar), Roca Bathrooms Products Private Limited (Parryware), Summercool Home Appliance Limited, Thermocool Home Appliances Limited and Butterfly Gandhi Mathi Private Limited amongst others. 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 67 percent during the period FY2018-FY2021 (Prov). OAL has stayed resilient during the covid-19 pandemic and recorded stable and sustainable revenue in FY2021. The operating income increased to Rs. 100.78 Cr in FY2021 (Prov) from Rs.97.81 Cr in FY2020. In FY2021, on account of pandemic less than 10 percent of total sales was realized in Q1 of FY2021. However, the firm aims to rebound with improved realizations in FY2022 and has recorded operating income of Rs.15.27 Cr in Q1 of FY2022 compared to Rs.3.53 Cr in Q1 of FY2021. Acuité believes that with an ongoing growth in demand in the industry backed by reputed clientele profile and improvement demonstrated in Q1 of FY2022, the business risk profile of the firm is expected to improve over the medium term.

- **Low customer and supplier concentration risk in revenue profile; Diversified product offerings**

OAL has been successfully able to diversify its product portfolio by offering various domestic appliances such as Ceiling fan, Wall fan, Table fan, Pedestal fan, Fan heater, Halogen heater, Electric geyser, Gas geyser, Inductions, Chimneys, Gas stoves and many other domestic appliances. OAL has a reputed and renowned customer profile consisting of clients such as V-Guard Industries and Orient Electric Limited. None of the single customer out of has contributed more than 20 percent to the total sales of the firm in FY2021 (Prov). The current suppliers are associated with the operations of the firm for nearly 5 years now. None of the single supplier of OAL contributed more than 20 percent to the total purchases of the firm. Acuité believes that OAL has low risk towards its revenue profile in terms of customer and supplier concentration and will benefit from its diversified product offerings over the medium term.

Weaknesses

- **Below-average debt protection metrics and capital structure**

OAL's financial risk profile is below-average, marked by a low networth and high gearing along with below-average debt protection metrics. The EBITDA margins of the firm improved to 4.62 per cent in FY2021 (Prov) against 3.76 in FY2020. The improvement is attributable to decrease in operational overheads of the firm such as manufacturing cost and selling and promotional expenses during the period. However, the PAT margins of the firm has deteriorated to 0.42 per cent in FY2021 (Prov) against 0.56 per cent in FY2020 on account of significant rise in interest cost due to the firm availing working capital term loans during the covid-19 pandemic period. The deterioration in profitability levels have led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.56 times and 1.13 times respectively in FY2021 (Prov) as against 1.92 and 1.18 times respectively in the previous year.

The net worth of the firm stood at Rs.18.69 Cr as on 31 March, 2021 (Prov) as against Rs.16.36 Cr as on 31 March, 2020. This improvement is on the account of accretion to reserves and capital contribution by the partners during the period. The gearing level (debt-equity) stands marginally deteriorated at 1.36 times as on 31 March, 2021 (Prov) as against 0.29 times as on 31 March, 2020, the deterioration is on the significant increase in long term debt due to the firm availing working capital term loans during the same period. TOL/TNW (Total outside liabilities/Total net worth) has marginally improved but remains high and stands at 4.00 times as on 31 March, 2021 (Prov) against 4.06 times in previous year. High TOL/TNW is on account of presence of high trade payables and short term debt.

The total debt of Rs.25.37 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.7.85 Cr, short term debt of Rs.15.56 Cr and maturing portion of long term borrowings of Rs.1.96 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.06 times in FY2021 as against 0.09 times in FY2020. Acuité expects the financial risk profile to remain below-average over the medium to long term period on account of below-average capital structure and stretched liquidity of the firm.

- **Working capital operations marked by high GCA days**

OAL's working capital cycle is marked by high gross current assets (GCA) days in the range of 197-291 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are majorly marked by high inventory and debtor days. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of high inventory amounting to nearly Rs.46.76 Cr on account of 2nd wave of covid-19 pandemic and presence of manufacturing unit near the farmer's protest area leading to hindrances in labor and transport operations. The firm also bought the raw materials to meet the orders from the customers but was unable to supply due to the aforementioned reason, thus leading to high inventory holding during the accounts closing as of March 31, 2021 (Prov). The debtors were also stretched in FY2021 on account of covid-19 pandemic. These are partially offset by high creditor days at 200 days as on March 31, 2021 (provisional). The high GCA cycle has led to high utilization of around 97 per cent of working capital requirement bank lines of Rs.16.00 Cr over the past 12 months ending May, 2021. Acuité believes that the operations of the firm will remain high working capital intensive on account of expected high level of debtors and inventory due to the firm's nature of business line.

- **Withdrawal of capital by partner**

OAL is a partnership firm and is exposed to the likeliness of the partners withdrawing capital from the business. However, the capital account of the partners of the firm has been healthy on account of capital contribution in past financial years and mitigates the risk to an extent.

Liquidity Position: Stretched

OAL's liquidity is stretched marked by modest generation of net cash accruals in FY2021 to its maturing debt obligations, low level of unencumbered cash and bank balance and high bank limit utilization. The firm has generated cash accruals in the range of Rs.1.53-1.87 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.1.00-1.80 Cr for the same period. The firm's working capital is intensive as evident from Gross Current Asset (GCA) of 291 days as on March, 2021 (Prov) as compared to 257 days as on March, 2020. The elevated GCA days as on March 31, 2021 (Provisional) is on account of presence of high inventory amounting to nearly Rs.46.76 Cr. The current ratio stood at 1.20 times as on 31 March 31 2021 (Prov) against 1.09 in previous year and the fund based limit remains utilized at nearly 97.00 percent over the 12 months ended May, 2021. The firm maintained unencumbered cash and bank balances of Rs.0.66 Cr as on 31 March 31 2021 (Prov) against Rs.0.43 Cr in previous year. OAL in FY2021 has to avail working capital term loan of Rs.1.60 Cr and Rs.4.04 Cr to meet its working capital requirement due to the intensive nature of working capital requirements and also has availed funded interest term loan (FITL) facility over the interest obligation of cash credit account during the pandemic period. Acuité believes that the liquidity of the firm is likely to improve over the medium term on account of increasing scale of operations and expected improvement in receivables management. However, the GCA days, inventory level, debtors level and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the firm. The firm is expected to generate NCA in range of Rs.1.95-2.79 Cr against maturing debt obligations in range of Rs.1.96-2.60 Cr over the medium term.

Rating Sensitivities

Positive

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the firm.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.
- Any weakening of financial risk profile of the firm.

Outlook: Stable

Acuité believes that OAL will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry, decent unexecuted order book and its reputed clientele profile. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations and reduction in GCA days leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case OAL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	100.78	97.81
PAT	Rs. Cr.	0.42	0.55
PAT Margin	(%)	0.42	0.56
Total Debt/Tangible Net Worth	Times	1.36	1.26
PBDIT/Interest	Times	1.56	1.92

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

Not Applicable

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
16 June, 2020	Cash Credit	Long Term	16.00	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	1.46	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	4.68	ACUITE BB/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.86	ACUITE BB/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	16.00	ACUITE BB/Stable (Reaffirmed)
Term Loan	07-03-2017	10.45%	31-10-2024	1.21	ACUITE BB/Stable (Reaffirmed)
Term Loan	07-03-2017	10.45%	31-10-2024	3.05	ACUITE BB/Stable (Reaffirmed)
Term Loan	29-04-2020	7.50%	30-04-2022	1.60	ACUITE BB/Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.14	ACUITE BB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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