

Press Release

Indoline Industries Private Limited

December 08, 2020

Rating Assigned



| | |
|-------------------------------------|---|
| Total Bank Facilities Rated* | Rs.25.00 Cr. |
| Long Term Rating | ACUITE B+ / Outlook: Stable (Assigned) |
| Short Term Rating | ACUITE A4 (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.25.00 Crore bank facilities of Indoline Industries Private Limited (IIPL). The outlook is '**Stable**'.

About the Company

Maharashtra-based, IIPL was incorporated in 1987. The company is engaged in manufacturing of all types of wooden furniture including modular kitchens, wardrobes, bedroom furniture, hotel and household furniture. The company also offers various finishes like Laminate, Acrylic, UV Lacquer, PU Lacquer, PVC Membrane, Veneer, Solid Wood and Back Painted Glass etc. The company is promoted by Mr. Husain Sultan Ali Nensey, Mr. Saif Husain Nensey and Mrs. Nissa Husain Nensey. The manufacturing facility is located at Ambad, Nashik.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of IIPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

The promoters, Mr. Husain Sultan Ali Nensey, Mr. Saif Husain Nensey and Mrs. Nissa Husain Nensey, have over three decades of experience in the said line of business. The extensive experience, coupled with long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. The company exports to countries such as UAE and USA, however export accounts for only 10 percent of the total sales. The company is planning to tie up with 'Pepper Fry' with a view to expand the business operations on e-commerce platform. The operations are expected to commence from December, 2020 or January, 2021.

Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the directors' demonstrated ability; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- Average financial risk profile**

Financial risk profile of the company is average marked by low net worth, poor gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), and low debt protection metrics. Tangible net worth of the company stood at Rs.5.62 Cr as on 31st March, 2020 (Provisional) against Rs.7.10 Cr as on 31st March, 2019. The low net worth was mainly on account of losses in the business. Debt protection metrics of interest coverage ratio stood low at 1.17 times in FY2020 (Provisional). The company reported negative cash accruals of Rs.(0.04) Cr for FY2020 (Provisional) against moderate repayment obligations. Further, annual cash accruals are expected to be in the range of about Rs.0.5 Cr-2.5 Cr in the medium term against moderate repayment obligations.

Acuité believes that the financial risk profile of the company is expected to remain at similar levels on account of modest net worth and low net cash accruals and timely support from promoters in the form of fund infusion will be critical for maintaining stable credit profile.

• Working capital intensive operations

IIPL's working capital operations are intensive as evident from Gross Current Asset (GCA) of 171 days in FY2020 (Provisional) against 148 days in FY2019 owing to high inventory days. The inventory days were recorded at 116 days in FY2020 (Provisional) against 86 days in FY2019; high since the company couldn't sell the finished goods during the end of March, 2020 which led to an increase in the Work In Progress (WIP) stock. The debtors' days were recorded at 48 days in FY2020 (Provisional) against 60 days in FY2019, which is corresponding to normal terms with customers. However, working capital bank lines remain fully utilized for last 7 months ended October, 2020.

Acuite believes that the working capital operations are expected to be on similar lines with respect to the inventory cycle; which will remain a key rating sensitivity factor.

• Highly competitive industry and foreign currency fluctuation risk

The company operates in a highly competitive nature of industry marked by various organized and unorganized players present in the market. The company also undertakes exports and no hedging mechanism is used to safeguard the same. Any adverse impact of foreign currency fluctuation will have an impact on the margins of the company.

However, Acuite believes that extensive experience of promoters in the furniture industry and exports contributing to only 10 percent of the revenues will mitigate such risk to a certain extent.

Rating Sensitivities

- Growth in revenue with the sustainability of the profitability margins
- Any deterioration of its financial risk profile and liquidity
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics

Material Covenants

None

Liquidity: Stretched

IIPL has a stretched liquidity position marked by negative net cash accruals to its maturing debt obligations. IIPL generated cash accruals of Rs.(0.04) Cr in FY2020 (Provisional) against moderate repayment obligations of Rs.0.62 Cr during the same period, further, going forward in FY2021 to FY2023, the cash accruals are expected to be in the range of Rs.0.5 Cr- Rs.2.5 Cr against moderate repayment obligations in the range of Rs.0.88 Cr- Rs.1.02 Cr. The working capital operations of the company is intensive marked by Gross Current Asset (GCA) days of 171 days in FY2020 (Provisional) against 148 days in FY2019. The company has low unencumbered cash and bank balances of Rs.0.23 Cr as on 31st March, 2020 (Provisional). The current ratio stood low at 0.93 times in the same period. Liquid investments stood at Rs.1.10 Cr as on 31st March, 2020 (Provisional). The working capital limits remains fully utilized for last 7 months ended October, 2020.

Acuite believes that liquidity profile is expected to remain stretched on account of working capital-intensive operations and low net cash accruals as against high repayment obligations.

Outlook: Stable

Acuite believes that IIPL will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues and profitability while maintaining its liquidity position, financial risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or in case of deterioration in the capital structure and stretch in its working capital management leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Provisional) | FY19 (Actual) |
|-------------------------------|---------|--------------------|---------------|
| Operating Income | Rs. Cr. | 58.02 | 73.42 |
| PAT | Rs. Cr. | (1.28) | 1.78 |
| PAT Margin | (%) | (2.21) | 2.43 |
| Total Debt/Tangible Net Worth | Times | 1.90 | 1.42 |
| PBDIT/Interest | Times | 1.17 | 4.82 |

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

None

Any other information

Not Applicable

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)

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 | 3.00 | ACUITE B+/ Stable (Assigned) |
| Term Loan I | Sep-2016 | 10.25% | May-2022 | 0.29 | ACUITE B+/ Stable (Assigned) |
| Term Loan II | Oct-2018 | 10.60% | Apr-2024 | 2.23 | ACUITE B+/ Stable (Assigned) |
| Working Capital Demand Loan | Apr-2020 | 8.10% | Sep-2023 | 0.83 | ACUITE B+/ Stable (Assigned) |
| Bills Discounting | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 (Assigned) |
| Funded Interest Term Loan | Oct-2020 | 10.35% | Mar-2021 | 0.16 | ACUITE B+/ Stable (Assigned) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 13.24 | ACUITE B+/ Stable (Assigned) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 3.25 | ACUITE A4 (Assigned) |

Contacts

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About Acuite Ratings & Research:

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