

Press Release

INDEUTSCH INDUSTRIES PRIVATE LIMITED

January 02, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BBB+ / Outlook: Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB+**' (**read as SMERA BBB plus**) and short term rating of '**SMERA A2**' (**read as SMERA A two**) on the Rs. 20.00 crore bank facilities of INDEUTSCH INDUSTRIES PRIVATE LIMITED. The outlook is '**Stable**'.

Indeutsch Industries Private Limited (IIPL; formerly Indeutsch Scholten Private Limited), incorporated in 1987, is a Noida-based company engaged in the manufacture and export of school paint brushes, artist and cosmetic brushes, brush components and canvas among others. The company's manufacturing unit is located at Noida with installed capacity of 36 millions units per annum for brushes and brush heads, 54 millions units per annum for metallic ferrule and 42 millions units for wooden handle. The company caters to customers in USA, Germany, France, and Canada among other countries.

Key Rating Drivers

Strengths

- Established track record of operations; Experienced & Qualified management**

IIPL was incorporated in the year 1987 by Mr. R C Jain and Mr. Samir Jain. The directors of the company have an experience of more than three decades in the brush industry. With a mix of experience and technical expertise of the directors supported with well-experienced second line of management, IIPL has been regularly updating its products in line with customer demand.

- Healthy financial risk profile without any major long term debt**

The financial risk profile of IIPL continued to remain healthy in FY2017. The debt/equity ratio has remained stable at 0.19 times as on 31 March, 2017 from 0.22 times as on 31 March, 2014 in the absence of any major long term debt (only vehicle loan) and also due to its minimal working capital debt. The interest coverage ratio has improved from 10.39 times in FY2016 to 12.45 times in FY2017. Further, the company's networth is healthy at Rs. 58.47 crore as on 31 March, 2017 compared to Rs. 52.52 crore as on 31 March, 2016. The company's debt service coverage ratio (DSCR) too is healthy at 7.74 times for FY2017 compared to 6.66 times for FY2016.

- Comfortable Working Capital Cycle**

IIPL has been managing its working capital cycle efficiently at 65-80 days. It has achieved the same by rationally managing inventory levels. The creditor days stood at 53 in FY2017 compared to 48 days in FY2016. Further the debtor days stood at 41 in FY2017 compared to 55 in FY2016.

Weaknesses

- Margins susceptible to forex risk and volatility in raw material prices**

The company's primary raw materials are natural and synthetic hair, cotton fabric, wooden handle, particle boards, pipes etc. which make for 36% as a proportion to operating income (for FY2017). The company maintains stock of key raw materials based on expected orders which enables it to meet deliveries within scheduled timelines. Margins are vulnerable to fluctuations in prices of raw materials.

Analytical Approach

SMERA has considered standalone financials and business risk profile of the company.

Outlook: Stable

SMERA believes IIPL will continue to benefit from its long track record of operations and experienced management over the medium term. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while also maintaining its operating profitability and liquidity position at comfortable levels. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital sourcing.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	84.09	85.60	94.58
EBITDA	Rs. Cr.	11.87	12.33	12.17
PAT	Rs. Cr.	6.43	6.94	7.03
EBITDA Margin	(%)	14.12	14.40	12.87
PAT Margin	(%)	7.65	8.11	7.43
ROCE	(%)	15.76	18.29	37.85
Total Debt/Tangible Net Worth	Times	0.19	0.22	0.27
PBDIT/Interest	Times	12.45	10.39	9.13
Total Debt/PBDIT	Times	0.80	0.83	0.93
Gross Current Assets (Days)	Days	145	159	135

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Aug-2016	Packing Credit	Long Term	INR 12	SMERA BBB+ / Stable
	Letter of Credit	Short Term	INR 0.35	SMERA A2
	Bank Guarantee	Short Term	INR 0.15	SMERA A2
	Proposed Packing Credit	Long Term	INR 7.5	SMERA BBB+ / Stable
02-Jun-2015	Packing Credit	Long Term	INR 12	SMERA BBB+ / Stable

	Letter of Credit	Short Term	INR 0.35	SMERA A2
	Bank Guarantee	Short Term	INR 0.15	SMERA A2
	Proposed Packing Credit	Long Term	INR 7.5	SMERA BBB+ / Stable
27-Mar-2014	Packing Credit	Long Term	INR 9.5	SMERA BBB / Stable
	Letter of Credit	Short Term	INR 0.35	SMERA A3+
	Bank Guarantee	Short Term	INR 0.15	SMERA A3+
	Proposed Packing Credit	Long Term	INR 10	SMERA BBB / Stable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA BBB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.35	SMERA A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	SMERA A2
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.50	SMERA BBB+ / Stable

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ABOUT SMERA

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