

Press Release

Indeutsch Industries Private Limited

February 18, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating of '**ACUITE A2**' (read as **ACUITE A two**) to the Rs.20.00 crore bank facilities of Indeutsch Industries Private Limited (IPL). The outlook is '**Stable**'.

IPL was incorporated in 1987 by Mr. Rup Chand Jain. Currently, the day-to-day operations are managed by Mr. Samir Jain. The company is engaged in manufacturing of paint brush & cosmetic brush and their component and canvas. IPL exports 95 percent of its production to USA, France, Germany, China and Mauritius, among others. The manufacturing unit is located in Noida with 36 million units per annum for Brushes and their Heads, 54 million units per annum for metallic ferrule and 42 million units for wooden handle.

Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of IPL to arrive at the rating.

Key Rating Drivers

Strengths

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

The rating draws comfort from longstanding experience of the promoters in the art industry with its high-quality products. The promoter, Mr. Rup Chand Jain has an experience of four decades, and Mr. Samir Jain possesses experience of two decades in the industry. Through active participation and innovation in the business, the promoters have developed long term relations with both customers and suppliers around the world.

Acuite believes that IPL will benefit from the established presence in the export market and experienced management over the medium term.

- **Healthy financial risk profile and debt coverage levels**

IPL has healthy financial risk profile marked by healthy net worth, low gearing and healthy financial risk profile. The net worth of IPL stood healthy at Rs.65.18 crore as on March 31, 2018 against Rs.58.47 crore as on March 31, 2017. The improvement in net worth is attributable to higher accretion to reserves on account of consistent growth in profitability and no major debt funded capex. The gearing of the company stood low at 0.19 times for both FY2018 as well as FY2017. The total debt of Rs.12.50 crore as on March 31, 2018 comprises short term working capital borrowings from bank of Rs.10.86 crore and vehicle loan worth Rs.1.14 crore and unsecured loan of Rs.0.50 crore.

The coverage ratios stood comfortable with Interest Coverage Ratio (ICR) of 9.61 times for FY2018 against 12.45 times for FY2017. Debt Service Coverage Ratio (DSCR) stood at 5.58 times for FY2018 against 7.74 times for FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.32 times as on March 31, 2018 against 0.34 times as on March 31, 2017. Further, the net cash accruals of the company stood healthy at Rs.10.26 crore for FY2018 against debt obligation of Rs.0.57 crore.

Acuite believes that the company to maintain its financial risk profile in the near to medium term backed by growth in revenues.

Weaknesses

- **Working capital intensive operations**

IPL has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 161 days in FY2018 as against from 145 days in FY2017. This is majorly due to the stretched receivable days of 73 in FY2018 from 41 days in FY2017. Moreover, the company maintains inventory for a period of 76 days in FY2018, mainly for raw material. IPL enjoys credit period of 41 days from its suppliers which moderates the working capital requirements. The average utilisation stood at 80 percent for last six months ended in December 2018.

- **Susceptibility of margins to forex fluctuation risk**

The company generates 95 percent of its revenue through exports, whereas imports ~50 percent of its raw materials. Hence, IPL is susceptible to foreign exchange risk especially as the company does not undertake any hedging.

Liquidity Position:

IPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.9.63 to Rs.10.26 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.28-0.57 crore over the same period. The cash accruals of the company are estimated to remain around Rs.10.79 – 11.99 crore during 2019-21 while its repayment obligation is estimated to be around Rs.0.58 Crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 161 in FY2018. IPL maintains unencumbered cash and bank balances of Rs.1.64 crore as on March 31, 2018. The current ratio of the IPL stands at 3.08 times as on March 31, 2018. Acuite believes that the liquidity of the IPL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that the outlook on IPL will remain 'Stable' over the medium term on account of the promoters' extensive experience. The outlook may be revised to 'Positive' in case the company registers significant growth in its revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle, thereby resulting in deterioration in the financial risk profile or debt protection metrics of the company.

About the Rated Entity - Key Financials

| | Unit | FY18 (Actual) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 86.65 | 84.09 | 85.60 |
| EBITDA | Rs. Cr. | 13.36 | 11.87 | 12.33 |
| PAT | Rs. Cr. | 6.71 | 6.43 | 6.94 |
| EBITDA Margin | (%) | 15.42 | 14.12 | 14.40 |
| PAT Margin | (%) | 7.75 | 7.65 | 8.11 |
| ROCE | (%) | 15.43 | 15.76 | 18.29 |
| Total Debt/Tangible Net Worth | Times | 0.19 | 0.19 | 0.22 |
| PBDIT/Interest | Times | 9.61 | 12.45 | 10.39 |
| Total Debt/PBDIT | Times | 0.84 | 0.80 | 0.83 |
| Gross Current Assets (Days) | Days | 161 | 145 | 159 |

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

None

Any other information

Not Applicable

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>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-----------------------------------|
| 02-Jan-2018 | Packing Credit | Long Term | INR 12# | ACUITE BBB+ / Stable (Reaffirmed) |
| | Letter of Credit | Short Term | INR 0.35 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | INR 0.15 | ACUITE A2 (Reaffirmed) |
| | Proposed Packing Credit | Long Term | INR 7.5 | ACUITE BBB+ / Stable (Reaffirmed) |
| 22-Aug-2016 | Packing Credit | Long Term | INR 12# | ACUITE BBB+ / Stable (Reaffirmed) |
| | Letter of Credit | Short Term | INR 0.35 | ACUITE A2 (Reaffirmed) |
| | Bank Guarantee | Short Term | INR 0.15 | ACUITE A2 (Reaffirmed) |
| | Proposed Packing Credit | Long Term | INR 7.5 | ACUITE BBB+ / Stable (Reaffirmed) |
| 02-Jun-2015 | Packing Credit | Long Term | INR 12# | ACUITE BBB+ / Stable (Upgraded) |
| | Letter of Credit | Short Term | INR 0.35 | ACUITE A2 (Upgraded) |
| | Bank Guarantee | Short Term | INR 0.15 | ACUITE A2 (Upgraded) |
| | Proposed Packing Credit | Long Term | INR 7.5 | ACUITE BBB+ / Stable (Upgraded) |

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*Annexure – Details of instruments rated

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

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About Acuité Ratings & Research:

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