



Press Release

Indeutsch Industries Private Limited

October 31, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs. 20.00 crore*
Long Term Rating	ACUITE A-/ Outlook: Stable (Upgraded from ACUITE BBB+/ Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

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

Reason for rating upgrade

The rating upgrade reflects the sustained scale of operations marked by the significant improvement in the profitability margins, improvement in financial risk profile and strong liquidity position of the company. IIPL has been able to sustain its operations on the back of continuous and repetitive orders from the reputed customers with an operating income of Rs. 94.02 crore in FY2020 (Prov.) as against Rs. 95.33 crore in FY2019. IIPL has also booked revenue of Rs. 44.55 crore in 6MFY2021 despite having no sales in April and for the most of May. Improvement in profitability margins are marked by a rise in operating profit margin i.e. EBITDA margin of 16.52 per cent in FY2020 (Prov.) as against 14.52 per cent in FY2019 and net profit margin of 14.76 per cent in FY2020 (Prov.) as against 7.95 per cent in FY2019.

Further, there is a significant improvement in overall financial risk profile on account of healthy net worth, gearing and debt-coverage indicators. Net worth stood healthy at Rs. 86.54 crore as on March 31, 2020 (Prov.) as against Rs. 72.88 crore as on March 31, 2019. Gearing improved from 0.17 times as on March 31, 2019 to 0.12 times as on March 31, 2020 (Prov.) supported by improvement in interest coverage ratio to 15.59 times as on March 31, 2020 (Prov.) as against 11.19 times as on March 31, 2019 and debt service coverage ratio to 10.81 times as on March 31, 2020 (Prov.) as against 6.25 times as on March 31, 2019.

The rating upgrade also derives comfort from a strong liquidity position of the company as evident from healthy net cash accruals of Rs. 17.07 crores in FY2020 (Prov.) against maturing debt obligations amounting to Rs. 0.35 crore for the same period, thereby resulting in lower dependence on working capital limits with average utilization being as low as ~68 per cent.

About the company

Incorporated in the year 1987, Indeutsch Industries Private Limited (hereinafter referred as IIPL) is engaged in the manufacturing of paint brush, cosmetic brush & their components and canvas. The company is promoted by Mr. Rup Chand Jain and Mr. Samir Jain. IIPL is an export-oriented unit with exports constituting ~94 per cent of the total operating income and catering to the markets of the U.S.A., Germany, China, U.K. and other parts of the world. The manufacturing unit is located in Noida with a production capacity of 36 million units p.a. for brushes and brush heads, 63 million units p.a. for metallic ferrule and 42 million units p.a. for wooden handles.

Analytical Approach

Acuite has considered the standalone view of business and financial risk profile of IIPL to arrive at this rating.

Key Rating Drivers

Strengths

• **Established track record of operations and experienced management**

Incorporated in the year 1987, IIPL promoted by Mr. Rup Chand Jain who has an experience of four decades and Mr. Samir Jain with an experience of around two decades in the aforementioned industry. Active participation and innovation in the business have helped the company in developing long-term relationships with its customers and suppliers across the globe.

Owing to its established track record of operations and management experience, the company has booked the revenue of Rs. 94.02 crore in FY2020 (Prov.) as compared to Rs. 95.33 crore in FY2019 and Rs. 86.65 crore in FY2018. Further, the company has booked a revenue of Rs. 44.55 crore for the half-year ended as on 30th September, 2020.

Acuite believes that IIPL will continue to benefit from its established track record of operations, experienced management and long-standing relationships with its customers and suppliers.

• **Healthy financial risk profile**

The financial risk profile of the company is healthy marked by strong net worth, healthy gearing, above average debt protection metrics and coverage indicators.

The net worth of IIPL is healthy, estimated at around Rs. 86.54 crore as on March 31, 2020 (Prov.). The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy profitability.

IIPL has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.19 times and 0.32 times as on March 31, 2018, over the past three years. The leverage levels continue to remain healthy at 0.12 times as on March 31, 2020 (Prov.). The total debt of Rs. 10.52 crore as on 31 March 2020 (Prov.) comprised of long-term borrowings of Rs. 0.88 crores, unsecured loans of Rs. 0.30 crore and working capital borrowings of Rs. 9.30 crores.

Healthy profitability has led to above-average debt coverage indicators of the IIPL marked by debt-service-coverage-ratio of 10.81 times as on 31st March, 2020 (Prov.) as against 6.25 times as on 31st March, 2019 and interest coverage ratio of 15.59 times as on 31st March, 2020 (Prov.) as against 11.19 times as on 31st March, 2019. Currently, there are no plans for capital expansion in the company. Further, healthy net cash accruals have resulted in lower dependence on its working capital limits, resulting in average utilization of ~68 per cent over the last six months. Acuite believes that the financial risk profile of IIPL will continue to remain healthy on account of healthy profitability and strong net worth.

Weaknesses

• **Working capital intensive nature of operations**

IIPL has moderately intensive working capital requirements marked by gross current assets (GCA) of 173 days in FY2020 (Prov.) as compared to 153 days in FY2019. This is on account of debtors' collection period of 71 days in FY2020 (Prov.) as against 66 days in FY2019 and inventory holding period of 91 days in FY2020 (Prov.) as against 69 days in FY2019. The average cash credit utilization for the past six months stood at ~68 per cent ended September, 2020. Further, the current ratio of IIPL stood at 3.72 times as on March 31, 2020 (Prov.). Acuite expects the working capital operations of the IIPL to remain moderately intensive on account of the level of inventory to be maintained and the credit given to its customers.

• **Customer concentration risk and susceptibility of margins to forex fluctuation risk**

The company generates ~95 per cent of its revenue through exports, while imports forming part of total raw material cost to the extent of ~51 per cent, making IIPL susceptible to foreign exchange risk as the company doesn't undertake any hedging. In addition to this, ~27 per cent of the total operating income is through its one of the key customers, namely Princeton Art & Brush. This risk is, however mitigated to an extent on account of the vintage relationship with the customer (13 years approximately).

Rating Sensitivity

- Significant improvement in the scale of operations.
- Significant deterioration in its working capital management.
- Decline in profitability levels, thereby impacting firm's debt coverage indicators.

Material Covenants

None

Liquidity: Strong

IIPL has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs. 17.07 crore for FY2020 (Prov.), while its maturing debt obligations were Rs. 0.35 crore for the same period. The company's working capital operations are moderately intensive, marked by Gross Current Asset (GCA) of 173 days for FY2020 (Prov.). The company maintains unencumbered cash and bank balances of Rs. 2.17 crore as on 31 March, 2020 (Prov.). The working capital limit of IIPL remains utilised at ~68 per cent in the last six months till September 2020. The current ratio of the company stood at 3.72 times as on March 31, 2020 (Prov.). Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that IIPL will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and long-standing relationships with its customers. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. 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 company's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	94.02	95.33
PAT	Rs. Cr.	13.88	7.58
PAT Margin	(%)	14.76	7.95
Total Debt/Tangible Net Worth	Times	0.12	0.17
PBDIT/Interest	Times	15.59	11.19

Status of non-cooperation with other 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 (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18 February , 2019	Packing Credit	Long term	12.00	ACUITE BBB+/ Stable (Reaffirmed)
	Letter of Credit	Short term	0.35	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	0.15	ACUITE A2 (Reaffirmed)
	Proposed Packing Credit	Long term	7.50	ACUITE BBB+/ Stable (Reaffirmed)
02 January, 2018	Packing Credit	Long term	12.00	ACUITE BBB+/ Stable (Reaffirmed)
	Letter of Credit	Short term	0.35	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	0.15	ACUITE A2 (Reaffirmed)
	Proposed Packing Credit	Long term	7.50	ACUITE BBB+/ Stable (Reaffirmed)

***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 A-/ Stable (Upgraded from ACUITE BBB+/ Stable)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A2+ (Upgraded from ACUITE A2)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE A2+ (Upgraded from ACUITE A2)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A-/ Stable (Upgraded from ACUITE BBB+/ Stable)

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About Acuite Ratings & Research:

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