Omfurn India Limited

September 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	15.79 (Enhanced from 15.20)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	15.50 (Enhanced from 10.00)	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**31.29 (Rs. Thirty-One Crore and Twenty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Omfurn India Limited (OIL) factors in the moderation in the credit risk profile of the company owing to deterioration in the operating and financial performance of the company characterized by significant dip in the total operating income along with decline in operating margin and net losses reported by the company in FY21 (refers to the period from April 01 to March 31). This has resulted into deterioration in the debt coverage indicators. Furthermore, the ratings are tempered by working capital intensive nature of operations resulting into elongated operating cycle, stretched liquidity position, susceptibility of profit margins to volatility in the raw material prices and foreign exchange fluctuation risk along with having presence in highly competitive & fragmented industry.

The ratings, however, continue to derive strength from long track record of operations, highly experienced promoters, established relationship with reputed clientele coupled with moderately strong order book position along with comfortable capital structure.

Rating Sensitivities

Positive Sensitivities

- Increase in the scale of operations with a total operating income exceeding Rs.55.00 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 10.00% and 2.80% respectively on a sustained basis
- Improvement in the collection and inventory holding period below 90 days and 150 days respectively on a sustained basis
- Improvement in the average utilization of the working capital limits reaching below 80% on a sustained basis

Negative Sensitives

- Significant lower than present turnover levels and profitability margins leading to significant deterioration in cash accruals
- Delay in despatch of orders leading to inability to achieve envisaged revenue.
- Deterioration in interest coverage ratio falling below unity posing threat to OIL's financial health and debt repayments
- Overall gearing ratio to deteriorate above 1.25 times on a sustained basis.

Key rating weakness

Significant decline in scale of operations: During FY21, total operating income (TOI) decreased significantly by 46.44% to Rs. 21.69 crore as compared to Rs. 40.50 crore in FY20 on account of low offtake of orders by its clients in light of the onset of COVID-19 pandemic and subsequent lockdown imposed. Further, during the period April 01, 2021 to August 26, 2021, the company has achieved total sales of 10.00 crore.

Decline in operating margin along with net loss reported in FY21: The company operates at moderate profit margins, however the PBILDT margin has been fluctuating and remained in the range of 9.00% to 11.93% during FY19-FY21. The PBILDT margin declined and stood at 9.00% in FY21 vis-à-vis 11.93% in FY20. Further, the company reported net loss of Rs. 0.93 crore in FY21 vis-à-vis PAT of Rs. 0.99 crore in FY20. The deterioration in the PBILDT margin and net loss incurred can be attributed to significant decline in the scale of operation in light of the lockdown imposed by the government owing to the onset of COVID-19 pandemic.

Weak debt coverage indicators: The debt coverage indicators viz. total debt to gross cash accruals (GCA) and interest coverage ratio have also exhibited significant deterioration in FY21. Total debt to gross cash accruals deteriorated significantly and stood at 41.14x in FY21 vis-à-vis 4.47x in FY20, owing to increase in debt levels along with decline in gross cash accruals on the back of net losses reported. Further, led by decline in operating profitability, the interest coverage ratio stood weak.

Working capital intensive nature of operations with elongated operating cycle: The operating cycle remained stretched mainly on account of significantly higher inventory holding period and higher collection period. The average inventory holding and collection period stood higher at 277 days and 179 days in FY21 (vis-à-vis 125 days and 114 days in FY20) given the onset of COVID-19 scenario which resulted in the shutting down of client's site leading to higher inventory holding at year end. The company maintains adequate level of inventory due to process driven nature of operations and also to meet the demand from its customers. Also the company caters primarily to hotels, real estate and corporates with whom liberal credit policy is adopted by the company. Against the same, the company receives moderate credit period upto 90 days from its suppliers.

Susceptibility of profit margins to volatility in the raw material prices and foreign exchange fluctuation risk: The raw material cost has been a major contributor to total operating cost thereby making profitability sensitive as the company does not have any long-term contract with suppliers due to which the profitability may hamper due to fluctuation in the prices of raw materials. Further, OIL also remain exposed to foreign exchange fluctuation risk, given 4% of its raw material is purchased from imports from Germany. On the back of COVID-19 pandemic situation, the imports were on lower side in FY21 whereas in FY20, the imports constituted 80% of the total raw material purchases. Hence, any adverse fluctuation in the foreign currency will hamper the profitability of the company.

Presence in highly competitive & fragmented industry: OFIL operates in a highly competitive & fragmented industry with a large number of small players engaged in providing interior designing services. Moreover, the professional free-lancers in the interior designing field also provide stiff competition to the company. Thus, the ability of the company to increase the scale of operations and improve profit margins amidst competitive & cyclical scenario would be critical from the credit perspective.

Key Rating Strengths

Long track record of operations with highly experienced promoters: OIL possesses long track record of over two decades of operations in manufacturing of modular furniture, doors and frames etc. It is promoted and managed by Mr. Rajendra Chitbahal Vishwakarma who has extensive experience of over three and half decades in same line of business and majorly looks after the overall management of the company. Further, the other directors Mr. Mahendra Chitbahal Vishwakarma, Mr. Mahesh Kumar Ranchhoddas Panchal and Mr. Narendra Chitbahal Vishwakarma are qualified and having extensive experience over three decades in the industry. Moreover, the company is supported by experienced and qualified second line management.

Established relationship with reputed clientele coupled with moderately strong order book position: The clientele of OIL comprises of various corporate players of repute across various industries viz. hotels, real estate, corporates, etc. from whom it receives repeated orders. However, the customer profile of the company is moderately concentrated with the top 5 customers comprising 59.34% of the net sales on FY21 (vis-à-vis 42.88% of the net sales in FY20). Further, the order book position of OIL stood healthy with total orders of Rs. 44.18 crore as on August 30, 2021.

Comfortable capital structure albeit deterioration on a y-o-y basis: The capital structure of OIL stood comfortable as on March 31, 2021, however the same has deteriorated during FY21 wherein the overall gearing stood at 0.75x as on March 31, 2021 vis-à-vis 0.58x as on March 31, 2020). The deterioration is on account of increase in the working capital bank borrowings of the company along with availment of additional term loans and COVID support loans as on balance sheet date coupled with decline in the tangible net worth base led by net losses reported by the company in FY21.

Liquidity: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. Its working capital limits remained fully utilized during past twelve months ended July 2021. The investment in net working capital as a percentage of capital employed stood at 62.85% as on March 31, 2021 vis-à-vis 67.60% as on March 31, 2020, whereas cash flow from operating activities remained positive at Rs. 0.82 crore in FY21 vis-à-vis Rs. 6.22 crore in FY20. Current and quick ratio remained moderate at 1.66 times and 0.78 times respectively as on March 31, 2021 (vis-à-vis current ratio and quick ratio of 1.61 times and 0.87 times as on March 31, 2020 respectively). Moreover, the company maintained free cash & bank balance of Rs. 3.52 crore as on March 31, 2021 vis-à-vis Rs. 0.20 crore as on March 31, 2020.

Analytical approach: Standalone.

Applicable criteria:
[Criteria on assigning Outlook and credit watch to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology - Manufacturing companies]
[Financial ratios: Non-financial sector]
[Liquidity Analysis of Non-Financial Sector Entities]

About the Company
Omfurn India Limited (OIL) was originally incorporated in the year 1997 as a private limited company; subsequently in June 2017, the constitution was changed to Public Limited and in the same year it was also listed on the NSE Emerge Platform. OIL is engaged in manufacturing of furniture and prefinished wooden doors. The company primarily undertakes turnkey projects for corporate offices, hotels, International schools, prefinished wooden doorframes and shutters & Fire Resistant doors for real estate developers. The product profile includes executive office furniture, international school furniture, modular office furniture, bedroom furniture, wooden door & frame etc. Further, the company is ISO 9001:2015, ISO 4001:2015, OHSAS 18001:2007 certified. OIL operates through its manufacturing plant located at Umbergaon, Gujarat and its registered office at Mumbai, Maharashtra.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	40.50	21.69
PBILDT	4.83	1.95
PAT	0.99	-0.93
Overall gearing (times)	0.58	0.75
Interest coverage (times)	2.65	1.13

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	1.50	CARE A4
Fund-based - LT-Cash Credit	-	-	-	9.66	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	14.00	CARE A4
Fund-based - LT-Term Loan	-	-	June 2024	6.13	CARE BB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A4	-	1)CARE A4+ (24-Aug-20)	1)CARE A4+ (18-Jul-19)	-
2.	Fund-based - LT-Cash Credit	LT	9.66	CARE BB; Stable	-	1)CARE BB+; Stable (24-Aug-20)	1)CARE BB+; Stable (18-Jul-19)	-
3.	Non-fund-based - ST-Bank Guarantees	ST	14.00	CARE A4	-	1)CARE A4+ (24-Aug-20)	1)CARE A4+ (18-Jul-19)	-
4.	Fund-based - LT-Term Loan	LT	6.13	CARE BB; Stable	-	1)CARE BB+; Stable (24-Aug-20)	1)CARE BB+; Stable (18-Jul-19)	-
5.	Fund-based - LT-Term Loan	-	-	-	-	-	1)CARE BB+; Stable (18-Jul-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Transaction limit	The company shall have to take prior approval of the bank in respect of the transaction exceeding 10% of the fund based limit or Rs. 50.00 lacs whichever is less and submit to the bank the information in required format. Other transactions exceeding 5% of the fund based limit or Rs. 25.00 lacs whichever is less will have to be reported to the bank every month.
B. Non-financial covenants	
1. Stock Audit	Stock audit will be conducted once a year by an outside agency appointed by the bank, the expenses whereof will be borne by the company
2. Negative lien	The company shall not create without the bank's prior consent, charge/s on their all or any assets, other than the charge/s created/ to be created in favour of the consortium banks for the working capital facilities enjoyed by the company.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details
Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

Media Contact
Mradul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Mr. Vikash Agarwal
+91-22-67543604
Email ID - vikash.agarwal@careratings.com

Relationship Contact
Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer
CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com