Omfurn India Limited (Revised)

August 03, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.79	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	15.50	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**31.29 (₹ Thirty-one crore and twenty-nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale & key rating drivers

The reaffirmation in ratings assigned to the bank facilities of Omfurn India Limited (OIL) continue to be tempered by small scale of operations albeit growth in revenues, modest profit margins elongated operating cycle resulting into higher working capital utilization, 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, cyclical & 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 healthy order book position and comfortable capital structure along with moderate debt coverage indicators.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income close to around Rs. 80.00 crore on a sustained basis.
- Improvement in profit margins with PBILDT and PAT margin exceeding 12.00% and 5.00% 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 factors

- Lower than envisaged turnover 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.

Detailed description of the key rating drivers

Key rating Weaknesses

Small scale of operations

During FY22, the total operating income (TOI) grew significantly by 50.95% to Rs. 30.87 crore as compared to Rs. 20.45 crore in FY21 on account of higher dispatch of orders and resuming of client's sites in light of the ease out of COVID-19 pandemic situation resulting in better revenue generation. Besides, the company has ventured into other segment viz. modular kitchen segment along with doors and wardrobes, which is expected to provide additional source of revenues for OIL. The company is having healthy order book position of Rs. 57.17 crore, out of which major chunk will be executed by FY23. Thus, going forward, achieving the envisaged revenues is critical to the growth of operations for the company.

Modest Profit margins

The company operates at modest profit margins, however the PBILDT margin has been fluctuating and remained in the range of 3.50% to 10.09% during FY20-FY22. The PBILDT margin improved and stood at 6.11% in FY22 vis-à-vis 3.50% in FY21. Further, the company reported PAT margin of 2.21% in FY22 vis-à-vis net loss of Rs. 0.93 crore in FY21. The improvement in the PBILDT margin can be attributed to significant improvement in the scale of operation leading to better absorption of overheads. Also, the company has reduced its losses and reported PAT of Rs. 0.68 crore in FY22 vis-à-vis net loss of Rs. 0.93 crore in FY21 owing to lower interest and depreciation cost.

Working capital intensive nature of operations

The operating cycle remained stretched at 258 days in FY22 vis-à-vis 332 days in FY21 mainly on account of funds utilized towards inventory and debtors. However, the operating cycle improved in FY22 owing to faster recovery of debtors leading to reduction in collection period from 190 days in FY21 to 131 days in FY22.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

The company has to maintain adequate inventory of raw material and work-in-progress which needs to be processed for timely execution of the orders received from its customers. However, the inventory holding has also reduced substantially from 284 days in FY21 to 210 days in FY22 owing to faster off-take of inventory. OIL receives moderate credit period up to 90 days from its suppliers. The creditors period improved and stood at 82 days in FY22 vis-à-vis 142 days in FY21. Given, the above, the operating cycle of the company remained stretched at 258 days in FY22 (vis-à-vis 332 days in FY21). On account of the stretched operating cycle, the average utilization of the cash credit facility for past twelve months ending June 2022 remained almost full. Any further significant deterioration is a key rating monitorable.

Profit margins susceptible to 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 material viz. hard wood. Further, OIL also remain exposed to foreign exchange fluctuation risk, given ~10% of its raw material is purchased from imports from Germany and Italy. Thus, any adverse impact on the logistics or transportation of goods from Europe owing to the ongoing war between Russia and Ukraine or any adverse impact on the fluctuation in the foreign currency may impact the profitability of the company adversely.

Presence in highly competitive, cyclical & 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. This is evidently reflected in the moderate profit margins and high collection period. Furthermore, the industry is also cyclical in nature since the interior designing work is a one-time activity for most of the customers while setting up of new offices. Besides, the revenues of the company is exposed to the performance of the real estate sector as the major supplies are to various real estate projects.
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. Furthermore, OIL faces competition from other companies as well for tenders of contracts.

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. J. A. Chandira and Mr. Narendra Chitbahal Vishwakarma are well-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 healthy order book position
The clientele of OIL comprises various corporate players of repute across various industries viz. hotels, real estate, corporates etc. Some of such reputed clientele include Larsen & Toubro, Lemon tree hotels, Piramal Estates, Oberoi Construction, etc. However, the customer profile of the company is moderately concentrated with the top 5 customers comprising 54.38% of the net sales in FY22 vis-à-vis 59.34% of the net sales in FY21 and the supplier profile stood diversified with top five suppliers comprising 13.37% in FY22 vis-à-vis 40.71% in FY21. Further, the order book position of OIL stood healthy with total orders of Rs. 57.17 crore as on July 26, 2022.

Comfortable capital structure and moderate debt coverage indicators
The capital structure of OIL marked by overall gearing ratio stood comfortable at 0.74x as on March 31, 2022 vis-à-vis 0.75x as on March 31, 2021. Despite the increase in the debt level on account of higher dependence on working capital bank borrowings and unsecured loans availed from promoters, the overall gearing ratio stood at the same level owing to improvement in the tangible net worth base from Rs. 21.13 crore as on March 31, 2021 to Rs. 21.81 crore as on March 31, 2022 backed by accretion of profits to reserves. Besides, funds have been infused by the promoters by way of unsecured loans to the tune of Rs. 0.26 crore in FY22.
The debt coverage indicators marked by total debt to gross cash accruals (GCA) and interest coverage ratio have improved and stood moderate in FY22. Total debt to gross cash accruals improved and stood at 8.64x in FY22. vis-à-vis 41.14x in FY21, owing to increase of 379.49% in GCA levels wherein the same stood at Rs. 1.87 crore in FY22 vis-à-vis Rs. 0.39 crore in FY21 on account of net profit reported by the company in FY22. Further, led by growth in operating profitability and lower interest cost, the interest coverage ratio reflected improvement and stood at 1.37x in FY22 vis-à-vis 0.41x in FY21

Liquidity: Stretched
The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. Its working capital limits remained almost fully utilized during past twelve months ended June 2022. Cash flow from operating activities remained negative at Rs. 0.37 crore in FY22 vis-à-vis Rs. 0.42 crore in FY21. Current and quick ratio remained comfortable at 1.84 times and 1.02 times respectively as on March 31, 2022 (vis-à-vis current ratio and quick ratio of 1.81 times and 0.94 times as on March 31, 2021 respectively). Moreover, the company maintained free cash & bank balance of Rs. 2.15 crore as on March 31, 2022 and Rs. 2.33 crore as on June 30, 2022 vis-à-vis Rs. 3.52 crore as on March 31, 2021.

Analytical approach: Standalone

Applicable criteria:

[Rating Methodology – Manufacturing Companies]
[CARE's Policy on Default Recognition]
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[Criteria for Short Term Instruments]
[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, modular kitchen, 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Prov.)
Total operating income	20.45	30.87	NA
PBILDT	0.71	1.89	NA
PAT	-0.93	0.68	NA
Overall gearing (times)	0.75	0.74	NA
Interest coverage (times)	0.41	1.37	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-Letter of credit	-	-	-	-	1.50	CARE A4
Fund-based - LT-Cash Credit	-	-	-	-	10.20	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	14.00	CARE A4
Fund-based - LT-Term Loan	-	-	-	February 2027	5.59	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - ST-Letter of credit	ST	1.50	CARE A4	-	1)CARE A4 (02-Sep-21)	1)CARE A4+ (24-Aug-20)	1)CARE A4+ (18-Jul-19)
2	Fund-based - LT-Cash Credit	LT	10.20	CARE BB; Stable	-	1)CARE BB; Stable (02-Sep-21)	1)CARE BB+; Stable (24-Aug-20)	1)CARE BB+; Stable (18-Jul-19)
3	Non-fund-based - ST-Bank Guarantee	ST	14.00	CARE A4	-	1)CARE A4 (02-Sep-21)	1)CARE A4+ (24-Aug-20)	1)CARE A4+ (18-Jul-19)
4	Fund-based - LT-Term Loan	LT	5.59	CARE BB; Stable	-	1)CARE BB; Stable (02-Sep-21)	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 Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

Contact us

Media Contact
Mr. Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID – mradul.mishra@careedge.in

Analyst Contact
Mr. Vikash Agarwal
+91-22-67543408
Email ID - vikash.agarwal@careedge.in

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

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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