Spacewood Furnishers Private Limited

January 15, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term / Short Term Bank Facilities	46.50	CARE BBB- / CARE A3 (Under Credit watch with Negative Implications) (Triple B Minus / A Three) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
Short Term Bank Facilities	29.26	CARE A3 (Under Credit watch with Negative Implications) (A Three) (Under Credit watch with Negative Implications)	Placed on Credit watch with Negative Implications
Total Bank Facilities	**75.76 (Rs. Seventy-Five Crore and Seventy-Six Lakhs Only)**		

Details of instrument / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the long term and short term ratings assigned to the bank facilities of Space Wood Furnishers Private Limited(SFPL) under 'credit watch with negative implications' in view of lack of full clarity due to the probable impact of the recent incident of fire, at manufacturing facility at T-48, MIDC, Hingna Road, Nagpur, on the credit profile of the company. CARE expects decline in the business for FY 21 (April 1, 2020 to December 31, 2020) due to combined impact of lockdown to curtail spread of COVID-19 and outbreak of fire at one of its manufacturing unit. The loss of production activity for a substantial period may have significant bearing on the financial profile of SFPL. The recovery is expected to be slow and gradual, affecting the liquidity of the company. As such, CARE will continue to closely monitor further developments with respect to this event and would engage with SFPL's management to gain more clarity on consequences of this fire on the operations of the company. CARE would take a view on the ratings of SFPL once greater clarity emerges on the exact implications of this event on the credit risk profile of the company.

The ratings continues to derive its strength from experienced promoters, long track record of the company in the similar line of business, technical collaboration with Sumitomo Group of Japan with investments from Sumitomo Forestry to the tune of 26% of equity stake, diversified products, reputed clientele, and moderate capital structure. CARE also notes that SFPL has not availed any moratorium on its debt as a COVID relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its adequate liquidity profile.

The ratings are however constrained on account of moderate scale of operations adversely impacted by COVID-19 induced lockdown in 9MFY21, thin operating margins though improved in FY20 (refers to the period April 1, 2019 to March 31, 2020), risk of foreign exchange fluctuations, elongated operating cycle due to high inventory levels resulting in working capital intensive nature of operations, presence in highly fragmented and competitive industry with volatile demand and cyclical nature of real estate industry.

Rating Sensitivities

Positive Factors:

- Sustained Growth in operations & improvement in PBILDT margin above 9.00%
- Improvement in operating cycle to below 90 days.

Negative Factors:

- Un-envisaged incremental debt funded capital expenditure or rise in working capital requirement resulting in deterioration in capital structure beyond 1.50x
- Deterioration in the PBILDT interest coverage to 2.50x or lower
- Deterioration in credit profile due to revenue loss owing to recent fire incident and timelines for unit restoration

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Detailed description of the key rating drivers
Key Rating Strengths
Experienced Promoters
Space Wood Furnishers Private Limited (SFPL) was promoted by Mr. Vivek Deshpande and Mr. Kirit Joshi in 1996. The promoters are engineers by profession and have an individual experience of over two decades in domestic modular furniture. Mr. Yoichi Kusumoto is a representative director on the board of SFPL on behalf of the Sumitomo Group. The promoters are also operationally supported by a strong design and marketing team. Sumitomo Corporation through its subsidiaries Sumitomo Forestry Limited and Sumitomo Forestry (Singapore) Limited has acquired 26% stake in SFPL.

Well diversified products and Reputed Clientele
The company's operations can be divided into four main verticals namely, home furniture, kitchen & windows, special projects and doors. The company has well established relationships with customers and tie ups with dealers who help them garner new contracts as well as repeat orders. The company garners revenue through various channels such as **e-commerce** (flipkart, urban ladder, pepperfry, amazon and other online portals), **distributors** (the home furniture division has around 200 dealers in its network while the kitchen division has around 150 dealers), **OEM**'s like Future group, Nilkamal, Reliance Retail, **retail outlets** - Spacewood stores which provide brand visibility, **institutions** for special projects through government tender**.**
The company also has established relationships and tie-ups with reputed builders (Godrej Group) for their kitchen and doors segment.

Moderate capital structure and debt coverage indicators
The total debt of the company comprises of working capital of Rs.40.34 crore, loans from directors of Rs.4.30 crore, against the net worth of Rs.137.70 crore as on March 31, 2020. Overall gearing was comfortable at 0.39x as on March 31, 2020 as against 0.47x as on March 31, 2019. TDGCA stood at 3.71x in FY20 as against 6.12x in FY19. Further PBILDT to interest coverage ratio improved and stood at 3.76x in FY20 as against 3.01x in FY19. SFPL has a negligible long term debt, while the utilization of fund based and non -fund based limits are around 50-60% and 70-80% respectively.

Key Rating Weaknesses
Recent incident of fire at one of its manufacturing facility:
Recently, the manufacturing facility of SFPL located at T48, MIDC, Hingna Road, Nagpur reported outbreak of fire. As articulated by management, the fire originated due to short circuit and it spread across other divisions of manufacturing unit. Huge stock of wood, foam and other inflammable material added fuel to the fire, and entire raw material, machinery were damaged. Since the finished goods were stored in Warehouse/Showroom located at different location, this finished good inventory was insulated from the impact of fire. Management has ascertained that the entire loss is covered under insurance. The incident being very recent, there is lack of clarity about extent of physical damage to the property & financial loss, admissibility of insurance claim and its quantum, any punitive action by any regulatory authority, timelines to restore the unit, etc. Accordingly, CARE would await further developments and clarity to unfold in this regard so as to enable it to assess the exact impact of the afore-mentioned incident on the credit profile of SFPL.

Financial risk profile marked by moderate scale of operation
Company witnessed overall improvement in business and has booked revenue of Rs.362.65 cr in FY20, y-o-y growth of 35.28% from Rs.268.07 cr in FY19. The PBILDT & PAT margin marginally improved and stood at 7.12% & 2.56% in FY20 as against 6.66% & 1.41%in FY19 respectively. Total orders in hand as on December 31, 2020 aggregated to Rs.180 cr as against the orders in hand of Rs.114.95 cr as on November 30, 2019. Company has booked revenue of Rs 137.01 cr during 9MFY21.

Susceptibility to volatility in foreign exchange and government regulations:
The company imports raw material i.e. engineered wood (laminated boards) from South - East Asian countries like Malaysia, which is further processed and laminated at the company's own facility before use for making of furniture. As SFPL has minimal exports vis–a-vis significant imports, the raw material prices are susceptible to foreign exchange price fluctuation risk and government regulations on import. Raw material imports amounted to 37% of total purchases in FY20 as against 48% of total purchases in FY19.

Working capital intensive nature of operations
SFPL's business operations continue to remain working capital intensive with funds blocked in debtors and inventory. The company operating cycle though elongated is improved of 149 days in FY19 to 124 days in FY20. The debtors days improved and stood at 116 days in FY20 as against 140 days in FY19. The company allows about 90 days credit to the customers, however due to involvement of middlemen and real estate clients the collection period gets stretched. Moreover the inventory levels also remain higher side, on account of high lead time involved in import of raw material.

High stocking is also required due to multiple furnishers segment. The inventory days stood at 87 days in FY20 as against 92 days in FY19.

Presence in a highly fragmented plywood sector with low entry barriers and high competition The sector is highly competitive, comprising a large number of players in the organized & unorganized segment as a result of low entry barriers. This results in intense competition which has a cascading effect on the player's margins. Furthermore, furniture industry is primarily dependent upon the demand of real estate and construction sector which is cyclical in nature. Any adverse movement in the macro economic factors may affect the real estate industry which in turn would impact the demand for the company's product.

Liquidity: Adequate

Liquidity is marked by moderate accruals of Rs.14.48 cr against negligible repayment obligation of Rs.0.01 cr with a gearing of 0.39x as of March 31, 2020. The company has sufficient gearing headroom to raise additional debt for any capex program in future. The average CC utilization is around 60% since the operating cycle is elongated on account of high collection & inventory days. The average non fund based utilization is around 70-80%.The free cash in hand was Rs.4.78 cr as on March 31, 2020 and Rs.7.73 cr as on December 31, 2020.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning "outlook" and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology -Manufacturing Companies
Financial ratios – Non-Financial Sector.
Liquidity Analysis of Non-financial sector entities

About the Company

Space Wood Furnishers Private Limited (SFPL) was established in 1986 by Mr. Kirit Joshi and Mr. Vivek Deshpande. The company is engaged in manufacturing of modular furniture. It offers solutions for modular kitchens, home and office furniture and also various institutional needs. The company has its manufacturing unit in Butiburi, Nagpur which is about 56% utilized for the furniture division and around ~44% utilized for doors and frames division. SFPL has manufacturing capabilities of around 10,000 kitchen cabinets, 36,000 bedrooms, 2,500 customized wardrobes and 4,000 complete kitchen units. It has over 450 dealers across India and has served over one lakh customers. The company has several certifications including ISO 9001, ISO14001 -2004, and ISO18001 – 2007 and FIRA UK quality certification.

Brief Financials (Rs. crore)	FY 19(A)	FY 20(A)
Total Operating Income	268.07	362.64
PBILTD	17.87	25.83
PAT	3.79	9.31
Overall gearing (times)	0.47	0.39
Interest Coverage (times)	3.01	3.76

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: Detailed explanation of covenants of the rated instrument is given in **Annexure-3**

Annexure-1: Details of Instrument / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	46.50	CARE BBB- / CARE A3 (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	29.26	CARE A3 (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	46.50	CARE BBB- / CARE A3 (Under Credit watch with Negative Implications)	-	1)CARE BBB-; Stable / CARE A3 (16-Mar-20) 2)CARE BBB-; Stable / CARE A3 (15-Apr-19)	-	-
2.	Non-fund-based - ST-BG/LC	ST	29.26	CARE A3 (Under Credit watch with Negative Implications)	-	1)CARE A3 (16-Mar-20) 2)CARE A3 (15-Apr-19)	-	-

Annexure-3: Covenants of rated instrument/facilities - NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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

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