Innovators Facade Systems Limited

March 29, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.54	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	23.75	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	48.00 (Reduced from 49.75)	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	**73.29 (Rs. Seventy-Three 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 Innovators Façade Systems Limited (IFSL) takes into account subdued operating and financial performance in FY21 (refers to the period from April 01 to March 31) as well as in H1FY22 characterised by decline in revenues booked owing to lack of momentum in the pace of business execution as a result of challenging market conditions owing to adverse impact of pandemic on the construction industry. This has resulted into lower than envisaged revenues and elongation in the operating cycle of the company as a result of slower realisation of receivables.

The ratings, however, continue to derive strength from the experienced promoters, established track record of the company in the façade fabrication business, above average operating profit margins, growing order book position and satisfactory capital structure and debt coverage metrics.

The aforementioned ratings' strengths are however tempered by client concentration risk, working capital intensive nature of operations demonstrated by elongated operating cycle, high execution risk given majority of order book is in nascent stage and competitive nature of the industry.

Key Rating Sensitivities

Positive rating sensitivities:

- Timely execution of orders resulting into improvement in pace of business with revenue growth ~ Rs.175 crore while sustaining the above average operating profit margins of ~15%.
- Improvement in operating cycle to 120 days or below
- Improvement in ROCE to ~12%

Negative rating sensitivities:

- Significant decline in scale of operations and/or reduction in PBILDT margin below 8% on a sustained basis
- Inordinate deviation in the overall gearing levels projected
- Lower than envisaged revenues and profitability leading to lower cash accruals leading to pressure on the debt coverage indicators and liquidity parameters.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters:

Innovators Façade Systems Limited (IFSL) is an aluminium façade contractor for designing, engineering, fabrication and installation of all types of façade systems. The company is headed by Mr. Radheshyam Sharma, who has a long-standing industry experience of two decades.

Growing order book position:

Over a period of time, IFSL had been able to increase its orders from the existing clientele and also add new clients. IFSL has projects primarily i.e. around 50% in Mumbai, Pune and Thane region with corporate clientele for various projects across India. There is client concentration on account of nature of the industry where there are few large projects, and the company undertakes contracts for selective large players only. The pending order book position as on Feb 2022 stood at ~Rs.300 crore providing revenue visibility for the next 2 years with the company adding orders close to Rs.120 crore in current fiscal. The ability of the company to execute its orderbook on a timely basis as well as generate cash flows as anticipated remains crucial from credit perspective.

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

Foraying into pharmaceutical sector with addition of the cleanroom into product portfolio and Backward integration of Coating Activity:
Given the increasing demand for clean room for the pharmaceutical entities, the company had planned to foray in the segment which it expects to materialise and enhance its customer base and consequently improving its topline and profitability by FY22. Because of covid the plans have been deferred and now expects to garner revenue from FY23 onwards. Further, the company was upgrading its manufacturing facility and has also equipped itself with Backward Integration of Coating Activity. Earlier the Coating Activity was outsourced to Job Work. Since now the Coating is done inhouse, there has been saving in the Conversion Cost. The same is evident from the improved margins in the current fiscal.

Satisfactory capital structure & debt coverage metrics
The Overall gearing improved to 0.30x as on Mar.31, 2021 vis-à-vis 0.77x as on Mar.31, 2020. The interest coverage ratio though declined from 3.23 in FY20 to 2.37 times in FY21; yet considered to remain at satisfactory levels.

Key rating Weaknesses

Modest scale of operations and decline in operational performance in FY21
The company's revenue during FY21 was Rs.66.37 crore, being lower than the revenue achieved in FY20 of Rs. 142.43 crore. The main reason for decline in revenue was due to slowdown in business operations thereby lower orderbook execution as a result of adverse impact of Covid-19 on Real Estate Sector. The same impact has continued in H1FY22 as well wherein the pace of execution has not picked up thereby having sizeable unbilled revenue as compared to level of operations in the current fiscal. On the profitability front, despite decrease in revenues, the PBILDT margin reported during FY21 was 13.23% (FY20: 11.66%). Also, the Company achieved Turnover of Rs. 30.41 crore in H1FY22 and PBILDT margin stood at 17.28%. However, some comfort can be drawn from the growing order book position with pending work of about Rs. 300 crore and growth in Real Estate industry with Covid-situation getting moderated.

Slowdown of business operation in the current fiscal due to Covid-19
The business operation and project work execution has been impacted in the current fiscal due to lockdown imposed by the Government in view of covid-19 pandemic. Given most of the the company's work execution is in Maharashtra and Delhi wherein the impact of pandemic has been relatively higher and along with labour migration, there has been slowdown of execution in H1FY21 and H1FY22. The company's business operation was halted for the period of about two months from the date of imposition of the lockdown ie; Mar 22, 2020 and has gradually resumed thereafter with easing of restrictions. However, still the work was affected due to Construction work being delayed and Façade work could only start post completion of Construction work. Also, due to 2nd wave of Covid-19, the performance of the company was impacted in H1FY22. Consequently, the revenue has registered a de-growth of approx. 53.40% on a y-o-y basis (from Rs.142.43 crore in FY20 to Rs.66.37 crore in FY21).

Working capital-intensive nature of operations owing to elongated operating cycle
The company's operations continue to remain working capital intensive in nature with stretched collection period also amount being blocked in for of Retention money with client and Unbilled revenue is also significant. This apart, the inventory days has been on the higher side. The operating cycle of the company has increased from around 274 days in FY20 to around 479 days in FY21. The company is into execution of specialized facades work with design, fabrication and execution done by them. Hence, for any project, they place order for the materials for a bulk portion resulting in raw material inventory for about 3-4 months due to the nature of fabrication procedures and also for smooth execution of work. Besides, the raw material at the project site which is not billed is also captured as unbilled revenue and is considered for calculation of operating cycle. Consequently, the operating cycle has been on the higher side. Gross Current Asset (days) has deteriorated from 328 days in FY20 to 576 days in FY21; thereby indicating slower execution of work coupled with slower realisation of receivables. Going forward, ability of the company to timely collect receivables as well as unbilled revenue would be critical from credit perspective and any inordinate delay or further deterioration in operating cycle or collection period is a key rating monitorable.

Liquidity Position: Adequate –
The company registered a positive gross cash accruals of Rs.5.12 crore in FY21. The liquidity position is adequate with minimal debt repayment obligations vis-à-vis the cash accruals. The debt repayment during FY22 is projected at Rs.2.54 crore out of which Rs.1.82 crore is already repaid during 9MFY22. The average maximum fund based bank limit utilization stood at 69.01% during the trailing twelve months ended Dec 2021. The free cash balance stood at Rs.0.76 crore as on Dec 31, 2021.Current ratio is 2.72 as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
Innovators Facade Systems Limited (IFSL), incorporated in 1999, is an Aluminium Facade contractor for designing, engineering, fabrication and installation of all types of facade systems. The product line of the company includes glazing/curtain walls, high end doors and windows, skylights, canopies, louver, stone cladding, metal cladding and roofing. The fabrication and glazing facilities are situated at Wada, Thane in Maharashtra spread over area of 1.25 lakh square feet. IFSL has set up 5 branch offices at Delhi, Mumbai and Bengaluru.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	142.43	66.37	30.04
PBILDT	16.61	8.78	5.19
PAT	-8.20	0.79	0.38
Overall gearing (times)	0.77	0.30	0.39
Interest coverage (times)	3.23	2.37	2.53

A: Audited; UA: Unaudited

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: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	23.75	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	30.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	18.00	CARE A3
Fund-based - LT-Term Loan		-	-	Sept 2023	1.54	CARE BBB-; 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	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (06-Apr-18)
2	Fund-based - LT-Cash Credit	LT	23.75	CARE BBB-; Stable	-	1)CARE BBB; Stable (31-Dec-20)	1)CARE BBB; Stable (04-Oct-19)	1)CARE BBB; Stable (23-Oct-18) 2)CARE BBB-; Positive (02-May-18) 3)CARE BBB-; Positive (06-Apr-18)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (06-Apr-18)
4	Non-fund-based - ST-BG/LC	ST	30.00	CARE A3	-	1)CARE A3+ (31-Dec-20)	1)CARE A3+ (04-Oct-19)	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)
5	Non-fund-based - ST-BG/LC	ST	18.00	CARE A3	-	1)CARE A3+ (31-Dec-20)	1)CARE A3+ (04-Oct-19)	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)
6	Fund-based/ Non-fund-based-LT/ST	LT/ST*	-	-	-	-	-	1)Withdrawn (06-Apr-18)
7	Fund-based - LT-Term Loan	LT	1.54	CARE BBB-; Stable				

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	i. Maintain benchmark ratios (leverage ratio, current ratio, etc)
	ii. Maintain required level of Working Capital
B. Non-financial covenants	i. Stock Audit to be done by Independent CA
	ii. Borrower to Submit QIS statement within prescribed limit
	iii. All the security charged to the Bank should be Insured.

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-BG/LC	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
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Vikash Agarwal
Contact no.: 91-22-6754 3408
Email ID: vikash.agarwal@careedge.in

Relationship Contact
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: 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.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**