

## Omfurn India Limited

August 24, 2020

### Ratings

Facilities	Amount (Rs. Crore)	Ratings <sup>1</sup>	Rating Action
Long term Bank Facilities	15.20 (Enhanced from 7.98)	<b>CARE BB+; Stable</b> <b>(Double B Plus; Outlook: Stable)</b>	Reaffirmed
Short term Bank Facilities	10.00	<b>CARE A4+</b> <b>(A Four Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>25.20</b> <b>(Rs. Twenty-Five Crore and Twenty Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Omfurn India Limited (OIL) continue to be constrained by modest albeit growing scale of scale of operations, moderate profit margins and debt coverage indicators, highly working capital intensive of nature of operations. The ratings are further continue to be constrain by susceptibility of profit margins to volatility in the raw material prices, foreign exchange fluctuation risk and presence in highly competitive & fragmented industry.

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

### Key Rating Sensitivities

#### Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.75 crore with tangible networth base exceeding Rs.25 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 15% and 6% respectively on a sustained basis
- Improvement in the debt coverage indicators with interest coverage ratio exceeding 4x with total debt to GCA reaching below 3x on a sustained basis.
- Improvement in the collection and inventory holding period below 90 days respectively on a sustained basis
- Improvement in the average utilization of the working capital limits reaching below 75% on a sustained basis

#### Negative Factors

- Deterioration in the capital structure with the overall gearing exceeding 1.00x on a sustained basis
- Inability of the company to timely complete existing orders along with grab new orders to achieve projected revenue for FY21

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Modest albeit growing scale of scale of operations:** The scale of operations of the company remained relatively modest although the same has increased during past three years ended FY20. The total operating income (TOI) has increased by 15.71% on y-o-y basis from Rs.35.00 crore FY19 to Rs.40.50 crore in FY20 due to higher order execution on the back of increase in the order receipts from its customers.

**Moderate profit margins and debt coverage indicators:** The company operates at moderate profit margins, however the PBILDT margin has been fluctuating during FY18-FY20 and stood in the range of 10.58% to 12.67%. The PBILDT margin has marginally improved and stood at 11.93% in FY20 (vis-à-vis 10.58% in FY19). Furthermore, with improvement in the PBILDT margin and lower depreciation charges, the company posted net profit of Rs.0.99 crore in FY20 vis-à-vis net loss of Rs.0.14 crore in FY19. The PAT margin remained moderate at 2.44% in FY20.

**Highly working capital intensive nature of operations:** 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 125 days and 115 days in FY20 (vis-à-vis 104 days and 142 days in FY19). 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 adopted by the company. Against the same, the company receives moderate credit period upto 90 days from its suppliers.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications.

**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 ~80% of its raw material is purchased from imports from Germany and Africa. 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. Furthermore, OIL also participates in the tenders which further intensify the competition.

#### Key Rating Strengths

**Long track record of operations with highly experienced promoters:** OIL possesses long track record of 23 years 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 38 years 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 strong order book position:** The clientele of OIL comprises 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 42.88% of the net sales in FY20. Further, the order book position of OIL stood moderately healthy with total orders of Rs.43.19 crore as on July 16, 2020 which are to be executed by FY21.

**Comfortable capital structure:** The capital structure of OIL stood comfortable with overall gearing stood at 0.58x as on March 31, 2020 (vis-à-vis 79x as on March 31, 2019). However, the same has improved during the year on account of decrease in debt level on back of lower utilization of its working capital limits as on balance sheet date, repayment of term loan and unsecured loans.

#### Liquidity Position: Adequate

The liquidity position remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate free cash balance of Rs.0.86 crore and other liquid investments stood at Rs.1.66 crore as on March 31, 2020. The average utilization of its working capital limits during past 12 months ended June 2020 stood at 81.15%. Further, the current ratio and quick ratio stood moderately comfortable at 1.61 times and 0.87 times respectively as on March 31, 2020. The net cash flow from operating activities stood positive at Rs.6.00 crore in FY20 (vis-à-vis negative at Rs.0.14 crore in FY19).

**Analytical approach:** Standalone

#### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

Omfurn India Limited (OIL) was originally incorporated in the year 1997 as a private limited company; later 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)	FY19 (A)	FY20 (A)
Total operating income	35.00	40.50
PBILDT	3.70	4.83
PAT	-0.14	0.99
Overall gearing (times)	0.79	0.58
Interest coverage (times)	2.19	2.65

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

#### 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	-	-	-	2.00	CARE A4+
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	CARE A4+
Fund-based - LT-Term Loan	-	-	-	7.70	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 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.	Non-fund-based - ST-Letter of credit	ST	2.00	CARE A4+	-	1)CARE A4+ (18-Jul-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	7.50	CARE BB+; Stable	-	1)CARE BB+; Stable (18-Jul-19)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A4+	-	1)CARE A4+ (18-Jul-19)	-	-
4.	Fund-based - LT-Term Loan	LT	7.70	CARE BB+; Stable	-	1)CARE BB+; Stable (18-Jul-19)	-	-
5.	Fund-based - LT-Term Loan	-	-	-	-	1)CARE BB+; Stable (18-Jul-19)	-	-

**Annexure 3: Complexity level of various instruments rated for this company/firm**

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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