PIL Italica Lifestyle Limited

December 29, 2020

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	9.00 (Enhanced from 6.00)	**CARE BB; Stable (Double B; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	1.00	**CARE A4 (A Four)**	**Reaffirmed**
Total Bank Facilities	**10.00 (Rs. Ten Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key rating Drivers

The ratings of PIL Italica Lifestyle Limited (PIL) continue to remain constrained on account of its fluctuating and modest scale of operations with moderate profitability margins. The ratings, further, continues to remain constrained on account of vulnerability of its margins to fluctuation in raw material prices and its presence in the highly competitive industry along with availability of substitutes.

The ratings, however, continue to favorably take into account experienced management with established marketing network, comfortable solvency position and adequate liquidity position.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Sustained increase in scale of operations of the company above Rs.60.00 crore.
- Improvement of profitability margins with registration of PBILDT margin above 11%

Negative Factors- Factors that could lead to negative rating action/downgrade

- Any new debt funded project undertaken by the company which results in deterioration in capital structure more than 1.00 times
- Deterioration of operating cycle with operating cycle more than 150 days
- Deterioration in operating margins on account of volatile raw material prices and foreign exchange fluctuation risk
- Any adverse change in government policy for plastic products

Detailed description of the key rating drivers

Key Rating Weakness

Fluctuating and modest scale of operations with moderate profitability margins

The scale of operations of the company stood modest with TOI of Rs.48.76 crore in FY20 (FY refers to the period from April 01 to March 31), dipped by 9.88% over FY19. The company was expecting to generate revenue of approx. Rs.7.00 Crore in Feb-March 2020, but due to market fear on account of COVID-19, the orders were not dispatched on time and the revenue stood just approx. Rs 2.00 Crore for the concerned period.

The company had shut down its plant located in Udaipur, Rajasthan from March 22, 2020. From April 15, 2020, the company resumed its operations with 40-45% of capacity for manufacturing of dustbins as well as plastic crates for transportation of fruits and vegetables and from June 01, 2020, it started its operations for manufacturing of plastic furniture also, thus increasing its overall capacity to 55-60%.

The profitability margins of the company stood moderate marked by PBILDT and PAT margin of 10.02% and 1.64% respectively in FY20 as against 6.38% and 5.81% respectively in FY19. PBILDT margin of the company has improved by 365 bps over FY19 mainly on account of low trading activity where margins are lower. Despite improvement in PBILDT margin, PAT margin of the company has declined by 417 bps in FY20 over FY19 mainly on account of charging of deferred tax of Rs 3.53 Crore in FY20. The gross cash accruals (GCA) of the company increased by 44.66% in FY20 over FY19 and stood healthy at Rs.4.73 Crore in FY20.

During H1FY21, TOI of the company has declined by 21.36% over H1FY20 mainly on account of lockdown due to Covid-19 and low orders from its customers. On account of lower TOI and high fixed expenses, the profitability of the company has declined in H1FY21 as against H1FY20 and stood with PBILDT and PAT margins of 4.37% and 2.67% respectively.

Presence in highly competitive industry along with availability of substitutes

Plastic industry is highly competitive due to the low entry barriers in the industry like low investment requirements and absence of any licenses required for setting-up a unit. The industry is characterized by a large number of small players, making the industry highly fragmented. The high degree of fragmentation also leads to stiff competition amongst the manufacturers.

Vulnerability of margins to fluctuation in raw material prices
The primary raw material required for manufacturing of PP granules, is a crude oil derivative. Over the years, prices of crude oil have been volatile and so are the prices of polymers. Considering the volatility associated with raw material prices and timing difference arising in procurement of raw material and realization of sales, exposes the company's operating margins to fluctuations.

Key Rating Strengths
Experienced management with established marketing network
Mr. Daud Ali, Managing Director, is graduate by qualification and has more than four decades of experience in the industry. He looks after overall affairs of the company and is assisted by Mr. Narendra Bhanawat, Whole time director and Chief Financial Officer, who has more than fifteen years of experience and looks after finance function. Mr. Rajendra Heda, Vice-President (Plant operations), looks after the plant operations of the company. They are, further, assisted by a team of more than 50 employees who assist the management in day to day operations of the company.
The company mainly supplies its plastic moulded furniture in Rajasthan, Haryana, Uttar Pradesh, Madhya Pradesh and Jammu & Kashmir i.e. catering most of the North Indian market through chain of dealers and distributors. It has almost 100 distributors and 600 dealers all over India.

Memorandum of Understanding (MOU) with Kisan Mouldings Limited (KML)
The company has entered into an MOU with KML, Mumbai as on February 14, 2020 for getting of marketing rights of Kisan brand for moulded furniture business for a period of five years. KML will manufacture moulded furniture on job work basis for PIL. As a result of this arrangement, PIL will be able to tap South Indian markets and other untapped regions of the country also through a diversified channel of distributors and dealers offering wide range of products to its clients.

Comfortable solvency position
The capital structure of the company stood comfortable marked by overall gearing of 0.06 times as on March 31, 2020 mainly on account of disbursement of new loan as well as utilization of cash credit limit. Further, the debt coverage indicators of the company stood comfortable with total debt to gross cash accruals of 0.80 times as on March 31, 2020, deteriorated from 0.04 times as on March 31, 2019 mainly on account of higher increase in total debt viz-a-viz gross cash accruals. Furthermore, the interest coverage ratio stood at of 25.69 times in FY20.
Liquidity: Adequate
The liquidity position of the company stood adequate marked by average utilization of 26.94% of its working capital bank borrowings during twelve months ended May, 2020 and adequate GCA against low repayment obligations. The liquidity ratios stood comfortable marked by current ratio and quick ratio at 7.05 times and 5.74 as on March 31, 2020 owing to loans and advances given to others. However, the operating cycle of the company stood moderate at 93 days in FY20, deteriorated from 72 days in FY19 owing to high inventory holding period. The main raw material for the products includes polypropylene granules and copolymers and it purchases from del-cadre agents of Reliance Industries Limited (RIL) from Udaipur etc. It receives payment from customers and makes payments within 25-40 days. During FY20, the net cash flow from operating activities has deteriorated from negative Rs.0.11 crore in FY19 to negative Rs.1.12 Crore in FY20 mainly due to higher inventory and higher loans and advances. Further, the company has envisaged GCA level of Rs 3.15 Crore in FY21 as against gross loan repayments of Rs 0.87 Crore in FY21. Further, the company also took loan from Aeroflex Finance Private Limited (AFPL) and utilized the same towards reduction in CC availment so as to retain funds for working capital requirements, payment of statutory dues, salaries, wages etc. in wake of COVID-19 pandemic. The loan is temporary in nature and is payable on demand.
Further, it has also sought for 10% of fund based working capital limit as emergency line of Credit for COVID-19 which is approx.0.40 Crore and additional Working Capital term Loan of Rs 0.2275 Crore under GECL in first week of August 2020.
Furthermore, it has availed moratorium facilities for the period from March 2020 to August 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
Udaipur (Rajasthan) based PIL was originally incorporated as a Public Limited Company in 1992 by Mr. Daud Ali as "Peacock Industries Limited" for carrying out manufacturing and trading of Plastic moulded furniture such as chairs, tables, stools, crates, storage and waste bins etc. The shares of the company were listed on Bombay Stock Exchange (BSE) on June 18, 1993. In December 1998, the company was declared sick by BIFR (Board for Industrial and Financial Reconstruction) and subsequently, in July 2013, BIFR sanctioned a scheme for rehabilitation of the company. In September 2015, the company changed its name and resumed its current name i.e. PIL Italica Lifestyle Limited. Further, it also exited from BIFR in March 2017.
The company is engaged in the business of manufacturing and trading of plastic moulded furniture such as chairs, tables, stools, crates, storage and waste bins etc. It is also engaged in the business of financing activities. The manufacturing facility of the company is located at Udaipur, Rajasthan and is certified with International Organization for Standardization (ISO) like ISO 9001:2015. It sells its product in India as well as export to countries like South Africa, Ghana and Dubai etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	54.10	48.76
PBILDT	3.45	4.89
PAT	3.14	0.80
Overall gearing (times)	0.00	0.06
Interest coverage (times)	50.14	25.69

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: None

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

Covenants of rated instruments/facility: *Detailed explanation of the covenants of 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	9.00	CARE BB; Stable
Fund-based - ST-Bank Overdraft	-	-	-	1.00	CARE A4

Annexure-2: Rating History of last three years

S.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-Cash Credit	LT	9.00	CARE BB; Stable	1)CARE BB; Stable (30-Jul-20)	1)CARE BB; Stable (06-Jan-20)	-	-
2.	Fund-based - ST-Bank Overdraft	ST	1.00	CARE A4	1)CARE A4 (30-Jul-20)	1)CARE A4 (06-Jan-20)	-	-

Annexure 3: Detailed explanation of the covenants of rated facilities: Not Applicable

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 - ST-Bank Overdraft	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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