

Innovators Façade Systems Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long Term Bank Facilities – Cash Credit	31.37	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities – Letter of Credit	16.13	CARE A3+ (A Three Plus)	Reaffirmed
Short Term Bank Facilities – Bank Guarantee	53.50 (enhanced from 46.50)	CARE A3+ (A Three Plus)	Reaffirmed
Total	101.00 (Rupees One Hundred and One crore)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Innovators Façade Systems Limited (IFSL) factors in the experienced promoters, healthy track record of the company in the façade fabrication business, long standing association with reputed clientele and a strong orderbook position. The ratings are further strengthened by the improvement in financial risk profile of the company post fund infusion through the initial public offer (IPO).

The aforementioned ratings' strengths are however tempered by IFSL's moderate scale of operations, stretched liquidity position owing to the working capital intensive nature of operations, geographic and customer concentration and risk associated with the cyclicity in demand from the real estate industry.

Going forward, the ability of the company to further improve its scale of operations, maintain profitability margins while efficiently managing its working capital requirements remain key rating sensitivities.

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 more than 20 years. IFSL since inception has executed orders amounting to more than Rs.1,100 crore.

Reputed clientele and strong orderbook position

IFSL has a PAN India presence and has been executing projects in major cities like Mumbai, Pune, Thane, Hyderabad, Bengaluru etc. for reputed corporate clientele. The company has also carried out façade installations for major airports across India. A healthy track record of operations and a long standing association with reputed clients has ensured repeat orders for the company and addition of new corporates like Infosys, JW Marriot and Reliance Industries to its clientele.

As on September 18, 2019, the company's orderbook stood at ~Rs.375.73 crore providing a healthy revenue visibility in the near term. 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.

Above average financial risk profile

IFSL has reported improvement in its debt coverage and gearing ratios over the last 2 years primarily on the back of equity infusion. During FY19, the networth base increased to Rs.109.26 crore from that of Rs.68.32 crore on the back of capitalization post the IPO proceeds.

The overall gearing of the company (incl. LC Acceptances and Mobilisation Advances) improved to 0.70 times from that of 1.21 times in FY18 and 1.93 times in FY17. Given the working capital intensive nature of operations the company's debt profile primarily comprises of short term (working capital) debt.

The interest cost for FY19 declined vis-à-vis FY18 on the back of repayment of long term debt and lower reliance on working capital borrowings; the interest coverage ratio thus improved to 4.47 times as against 2.59 times in FY18.

Key Rating Weaknesses

Moderate scale of operations

The company's topline during FY19 remained stable as it grew by merely 2.31% on a y-o-y basis, however over the period of FY16-19 the company's topline has clocked a CAGR of 88% increasing from Rs.94.39 crore in FY16 to Rs.158.76 crore in FY19. The company in order to improve the scale of operations and cost efficiencies have set up offices in major metro cities to facilitate marketing as well as project execution (largely for ease in logistics).

On the profitability front, in FY19, the company reported a stable PBILDT margin of 14.20% (FY18: 14.57% and FY17: 10.63%). The improvement in the margin is also on account of company independently handling the contracting work which provides better margin as against the subcontracting mode prior to FY18.

Working capital intensive nature of the operations

The company's operations continue to remain working capital intensive with higher inventory and receivable days. The inventory days increased to 105 days in FY19 as against 94 days in FY18 and 90 days in FY17. The total debtors (incl. retention money and unbilled revenues) stood at Rs. 85.13 crore from Rs.82.84 crore in FY18. The counterparty credit risk seems to be moderate given the company deals with reputed corporate clients.

Customer concentration and geographic concentration risk

Majority of the contracts of IFSL are from Mumbai, Navi Mumbai, Thane and Delhi. The revenue from top five customers accounted for ~47% of the total revenues for FY19. However, the client concentration is on account of nature of the industry where there are few large projects.

Stretched liquidity

The average fund based bank limit utilization stood high at ~90.63% during the trailing twelve months ended July 2019 and provides limited liquidity backup. The company as on June 30, 2019 had cash balance of Rs.10.88 crore (of which Rs.10.27 crore was lien marked and balance Rs.0.61 crore being free cash). Thus the company has limited liquidity buffer.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[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 fabrication and glazing facility of the company is state-of-art situated at Wada, Thane in Maharashtra spread over area of 1.25 lakh square feet. IFSL is headed by Mr. Radheshyam S. Sharma who has 18 years of experience in the construction industry.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	155.17	158.76
PBILDT	22.61	22.55
PAT	7.93	4.71
Overall gearing (times)	1.21	0.70
Interest coverage (times)	2.59	4.47

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

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	-	-	-	31.37	CARE BBB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	53.50	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	16.13	CARE A3+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (06-Apr-18)	-	1)CARE BBB-; Stable (22-Feb-17)
2.	Fund-based - LT-Cash Credit	LT	31.37	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Oct-18) 2)CARE BBB-; Positive (02-May-18) 3)CARE BBB-; Positive (06-Apr-18)	-	1)CARE BBB-; Stable (22-Feb-17)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (06-Apr-18)	-	1)CARE A3 (22-Feb-17)
4.	Non-fund-based - ST-Bank Guarantees	ST	53.50	CARE A3+	-	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)	-	1)CARE A3 (22-Feb-17)
5.	Non-fund-based - ST-Letter of credit	ST	16.13	CARE A3+	-	1)CARE A3+ (23-Oct-18) 2)CARE A3 (02-May-18) 3)CARE A3 (06-Apr-18)	-	1)CARE A3 (22-Feb-17)
6.	Fund-based/Non-fund-based-LT/ST	LT/ST	-	-	-	1)Withdrawn (06-Apr-18)	-	1)CARE BBB-; Stable / CARE A3 (22-Feb-17)

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

Cash Credit Limit	
A. Financial Covenants	
1. Interest	Benchmark MCLR (1 year) plus 2.10% (spread) which works out to 10.50 p.a. chargeable on monthly rests.
2. Margin	25%
3. Security	Hypothecation of stocks of raw material, stock-in-process, finished goods, stores & spares and receivables on pari-passu basis in case of consortium/multiple banking arrangement
4. Term of sanction	One year
B. Non-financial Covenants	
1. Insurance	The assets created out of banks advance (besides promoter's contribution) shall be insured for full value by the borrower/branch/cluster and all expenses in this regard (including timely renewal of the insurance cover) shall be borne by the borrower.
2. Penal Interest	2% p.a. on irregular portion

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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