

May 27, 2024

## Padam Interiors: Ratings reaffirmed; Rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	22.50	22.50	[ICRA]BBB+ (Stable); Reaffirmed
Long-term – Fund-based/Cash credit	(10.00)	(10.50)	[ICRA]BBB+ (Stable); Reaffirmed/Assigned
Short-term – Non-fund based – Bank guarantee	291.25	320.25	[ICRA]A2; Reaffirmed/Assigned
Short-term – Non-fund based – Letter of credit	(105.00)	(200.00)	[ICRA]A2; Reaffirmed/Assigned
Long-term/ Short-term Unallocated	0.00	18.00	[ICRA]BBB+ (Stable)/[ICRA]A2; Assigned
<b>Total</b>	<b>313.75</b>	<b>360.75</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation/assignment in ratings note PI's healthy financial profile with an estimated increase in revenues, comfortable leverage, and debt coverage metrics in FY2024 and FY2025. PI's order inflow is healthy with fresh orders of Rs. 1,234.2 crore in FY2024 (PY: Rs. 683.5 crore), aided by an increase in absorption of commercial space, resulting in closing order book of Rs. 740.0 crore as of March 2024 (PY: Rs. 405.4 crore). The firm's order book position remains moderate with an order book/OI of 0.8 times as of March 2024 (0.7 times as of March 2023) with an execution period of 2-24 months. Its revenues are likely to increase by around 45% to ~Rs. 870.0 crore (PY – Rs. 602.5 crore) in FY2024 and grow further by 10% in FY2025, supported by healthy order inflow and execution. This is likely to result in an increase in operating profits, which along with low debt levels is estimated to lead to comfortable debt protection metrics in FY2024 and FY2025. The ratings continue to factor in the extensive track record of the partners as turnkey contractors in the interior designing space, along with its established relationship with a reputed customer base resulting in repeat orders and limiting the counterparty credit risk and wide geographical presence.

The ratings, however, are constrained by the susceptibility of the firm's operating profitability to volatility in raw material costs, given the fixed-price contracts with the customers and intense competition in the industry. While the operating profit margins (OPM) improved to 11% in FY2023 from 8.3% in FY2022, supported by better absorption of fixed costs, it remained lower than the pre-Covid levels of 13-15%. The same is expected to be in the range of 10-11% for FY2024. The firm has a few slow-moving orders due to issues related to site clearance, design approvals, etc. Its ability to pass on the increased costs remains to be seen. ICRA notes the risk associated with the partnership constitution, including the inherent risk of capital withdrawal and the high off-balance sheet exposure (bank guarantees of around Rs. 150.3 crore as of December 2023).

The Stable outlook on the rating reflects ICRA's expectations that PI's credit risk profile will be supported by its established position in the interior designing industry resulting in healthy order flow, and the firm will continue to maintain comfortable leverage and debt coverage indicators.

## Key rating drivers and their description

### Credit strengths

**Healthy financial profile with an estimated increase in revenues, comfortable leverage, and coverage indicators** – As of March 2023, the firm's leverage remained low with total outside liabilities/tangible net worth ratio of 0.9 times and Total debt/OPBDITA of 0.1 times, while its coverage indicators remained comfortable with DSCR of 27.1 times and interest coverage of 31.8 times for FY2023. The firm's revenues are likely to increase by around 45% to ~Rs. 870.0 crore (PY – Rs. 602.5 crore) in FY2024 and grow further by 10% in FY2025, supported by healthy order inflow and execution. This is likely to result in an increase in operating profits, which along with low debt levels is estimated to lead to comfortable debt protection metrics in FY2024 and FY2025.

**Wide geographical presence with established relationship with reputed clients; healthy order inflow** – The firm has a reputed and diversified customer profile across India, comprising corporates from the IT industry, financial and banking sector, healthcare, and hospitality, with a demonstrated track record of repeat orders from most of its customers and year-on-year addition to its client base. PI has operations across Maharashtra, Karnataka, Tamil Nadu, Telangana, Gujarat, Haryana, Delhi, and Uttar Pradesh, which has aided a wide geographical reach. PI's order inflow is healthy with fresh orders of Rs. 1,234.2 crore in FY2024 (PY: Rs. 683.5 crore), aided by an increase in the absorption of the commercial space, resulting in closing order book of Rs. 740.0 crore as on March 2024 (PY: Rs. 405.4 crore). The firm's order book position remains moderate with an order book/OI of 0.8 times as of March 2024 (0.7 times as of March 2023) with execution period of 2-24 months.

**Extensive experience of partners as turnkey contractors in interior designing space** – PI is managed by Mr. Shankarlal Kularia and Mr. Dharamchand Kularia, who have experience of over two decades in the interior decoration business and are aided by a team of experienced professionals. It started operations as an interior contractor and now provides turnkey solutions (including designing and structural construction), along with architecture as a collaborative process. The extensive experience of partners has enabled the firm to maintain a strong relationship with its customers and suppliers.

### Credit challenges

**Vulnerability of profitability to raw material price fluctuations and stiff industry competition** – The ratings, however, are constrained by the susceptibility of the firm's operating profitability to volatility in raw material costs, given the fixed-price contracts with the customers and the intense competition in the industry. While its OPM improved to 11% in FY2023 from 8.3% in FY2022, supported by better absorption of fixed costs, the same remained lower than the pre-Covid levels of 13-15%. The OPM is expected to be in the range of 10-11% for FY2024. The firm also has a few slow-moving orders due to issues related to site clearance, design approvals, etc. Its ability to pass on the increased costs remains to be seen. PI faces stiff competition, not only from numerous organised and unorganised players in the industry, but also from large real estate companies with integrated interior decoration operations.

**Inherent risk associated with partnership entities** – Due to its partnership constitution, PI is exposed to the risk of capital withdrawal, in addition to others risks, such as retirement/death/insolvency of the partners. The firm also has a history of capital withdrawal by partners, though there have not been any significant capital withdrawals over the last two fiscals.

**High off-balance sheet exposure** – ICRA notes the high off-balance sheet exposure (bank guarantees of around Rs. 150.3 crore as of December 2023) due to submission of security deposit/earnest money deposit, performance and other guarantees, reliance on mobilisation advances and security deposits from sub-contractors to fund the working capital requirements. Moreover, any slowdown in such receipts may increase PI's reliance on bank borrowings.

## Liquidity position: Adequate

ICRA expects the firm's liquidity position to remain adequate, with negligible long-term debt service obligations, moderate utilisation of working capital limits (average utilisation of 14% during January 2023 to December 2023) and absence of any debt-funded capex plans. Further, PI has free cash and liquid investments of Rs. 63.2 crore as of March 2024.

## Rating sensitivities

**Positive factors** – Sustained increase in revenues and profitability, and efficient management of working capital cycle leading to an improvement in liquidity, while maintaining strong capitalisation and debt coverage metrics could lead to a rating upgrade.

**Negative factors** – Any significant slowdown in order inflow and order execution resulting in a decline in revenue and profitability or stretch in the working capital cycle may result in a downward pressure on the ratings. Significant capital withdrawal that weakens the liquidity position could also lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Construction</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Established in 2006, Padam Interiors is an ISO 9001:2008 certified entity that provides civil and interior design solutions on a wide range of commercial platforms such as airports, offices, restaurants, shopping malls, resorts, and hospitals. Mr. Shankarlal Kularia and Mr. Dharamchand Kularia, who have almost two decades of experience in a related business sector, manage the firm. Its registered office in Mumbai (Maharashtra) handles all administration activities and it has branches in Maharashtra, Karnataka, Haryana, Tamil Nadu, Gujarat, Uttar Pradesh, Telangana, and Andhra Pradesh.

## Key financial indicators (audited)

	FY2022	FY2023
Operating income	367.9	602.7
PAT	19.6	41.9
OPBDIT/OI	8.3%	10.8%
PAT/OI	5.3%	6.9%
Total outside liabilities/Tangible net worth (times)	1.2	0.9
Total debt/OPBDIT (times)	0.9	0.1
Interest coverage (times)	12.9	31.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Current rating (FY2025)			Chronology of rating history for the past 3 years			
				Date & rating in FY2025			Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				May 27, 2024	May 09, 2024	May 06, 2024	Jan 15, 2024	May 08, 2023	Oct 27, 2022	Nov 09, 2021
1	Fund-based – Cash credit	Long-term	22.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)
2	Fund-based – Cash credit	Long-term	(10.50)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)
3	Non-fund based – Bank guarantee	Short-term	320.25	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2
4	Non-fund based – Letter of credit	Short-term	(200.00)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2
5	Unallocated limits	Long-term/ Short-term	18.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BB+ (Stable)/ [ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)/[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)/ [ICRA]A2

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based - Cash Credit	Simple
Long-term Fund based - Cash Credit	Simple
Short-term Non fund-based limits	Very Simple
Short-term Non fund based - Letter of Credit	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	22.50	[ICRA]BBB+ (Stable)
NA	Cash credit	NA	NA	NA	(10.50)	[ICRA]BBB+ (Stable)
NA	Bank guarantee	NA	NA	NA	320.25	[ICRA]A2
NA	Letter of credit	NA	NA	NA	(200.00)	[ICRA]A2
NA	Unallocated	NA	NA	NA	18.00	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: Company

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**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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