August 17, 2020

Padam Interiors: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash Credit	10.00	15.00	[ICRA]BBB+(Stable); Reaffirmed
Non-fund based - Bank Guarantee	108.00	128.00	[ICRA]A2; Reaffirmed
Non-fund based - Letter of Credit^	(35.00)	(55.00)	[ICRA]A2; Reaffirmed
Unallocated	32.00	7.00	[ICRA]BBB+(Stable)/[ICRA]A2; Reaffirmed
Total	**150.00**	**150.00**	

^Sublimit of BG

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to favourably factor the extensive track record of the partners' of Padam Interiors (PI) as turnkey contractors in the interior decoration space, supported by a professional management set-up. The ratings also continue to draw comfort from the firm's healthy financial risk profile characterised by satisfactory operating margin and the consequent healthy return indicators aided by high customisation involved in the scope of projects. Along with comfortable capital structure as indicated by low gearing of 0.2 time as March 31, 2020 due to a healthy net worth base and limited dependence on external debt, this has resulted in robust coverage indicators as depicted by OPBDITA/Interest of 18.4 times in FY2020. The ratings also continue to factor in the firm's reputed client base, which limits the counter-party risk to an extent and the geographically diversified order book position with expanding scope of work in the interior space, which has facilitated healthy order inflow from existing as well new customers. While the ratings continue to draw comfort from the surge in fresh order inflow, which increased by ~1.8x to Rs. 607.42 crore in FY2020 from Rs. 332.49 crore in FY2019, the unexecuted order book position stood low at Rs. 431.22 crore as on March 31, 2020 (0.93 time of FY2020 OI), providing revenue visibility only in the near-term. The unexecuted order book, nevertheless, poses a challenge with regards to timely execution because of the ongoing Covid-19 pandemic. With the expected adverse impact of the pandemic, ICRA expects PI's operating performance to remain under pressure in the coming months. Any longer-than-anticipated stretch in the restricted movements or workforce deployment, or the pace at which normal business activities resume, can severely impact PI's scale and profitability in the current year. ICRA would continue to monitor the developments related to recovery/normalisation of operations after the lockdown. This will continue be a key monitorable subject in the current fiscal.

The ratings, however, are constrained by the intense competition from other prominent players (with integrated interior decoration operations) in the construction business, along with the numerous organised and unorganised players in the interior decoration industry. The ratings are also constrained by the business procurement method through the lowest bidding process (L1), which puts pressure on the margins. The ratings are also constrained by the firm's exposure to withdrawal of capital by partners. ICRA notes the susceptibility of the firm's profitability to increase in the raw material consumption expenses and the risks associated with partnership constitutions, such as withdrawal of capital and the retirement/insolvency/death of partners.

The Stable outlook on the long-term rating reflects ICRA's expectation that PI's credit risk profile will be supported by its established position in the interior decoration industry as a complete turkey solution provider, backed by its professional management team and its healthy financial risk profile.

Key rating drivers and their description

Credit strengths

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

Established relationship with reputed clients demonstrating track record of repeat orders; wide geographical reach due to pan India presence – PI has a reputed and diversified customer profile across India, comprising corporates from the IT industry, financial and banking sector, healthcare and hospitality, shopping malls and the housing sector, with a demonstrated track record of repeat orders. The firm has a history of repeat orders from most of its customers with YoY addition to its client base. Moreover, PI has operations across India's leading cities like Mumbai, Pune, Bangalore, etc, which has aided a wide geographical reach.

Healthy financial risk profile charactersied by satisfactory profitability margins, strong coverage indicators and comfortable capital structure – PI has been able to maintain superior profit margins with an operating margin in range of ~15% during the period FY2017-FY2019, primarily because of the execution of highly customised orders that helped it maintain higher contribution as well as benefits arising out of economies of scale. However, the operating margin declined to 13% in FY2020(P) on account of the raw material consumption cost booked against which sales could not be realised due to the sudden lockdown announcement. Additionally, low reliance on outside debt has enabled the firm to maintain a comfortable capital structure with gearing of 0.2 time as on March 31, 2020. The interest coverage indicator (OPBDITA/Interest) improved to 18.4 times in FY2020 from 6.3 times in FY2019 due to repayment of a loan against property and no provision for interest on partners capital.

Surge in new order inflow with scope of work expanding to interior works in airports, restaurants, resorts, etc; however, OB/OI continues to remain low – PI's fresh order book position improved significantly during FY2020 after a marginal decline in new order inflow in FY2019. Fresh orders increased by ~1.8x to Rs. 607.42 crore in FY2020 from Rs. 332.49 crore in FY2019. The significant increase in fresh inflow is due to bidding in higher value and longer duration tenders after the enhancement of bank limits and expanding scope of work undertaken as a turnkey contractor. As on March 31, 2020, PI had an unexecuted order book position of Rs. 431.22 crore (order book/OI of 0.93 times of FY2020 OI), which though improved from Rs. 287.17 crore (order book/OI of 0.82 times of FY2019 OI) as on March 31, 2019, continues to remain low.

Credit challenges

Pressure on operating income and profitability expected in current fiscal owing to operational issues driven by Covid-19 disruptions – Since the firm faces maximum exposure in India's leading cities (~85-90%), which were severely impacted by the pandemic, the resumption of operations took longer than anticipated. While most of the sites are operational, two sites with unexecuted order book of ~Rs. 60 crore have not commenced operations due to the lockdown restrictions. The firm has achieved a revenue of ~Rs. 35-40 crore for Q1 FY2021, against a revenue of ~Rs. 100 crore during Q1 FY2020, owing to operational issues driven by the Covid-19 pandemic. Any longer-than-anticipated stretch in the restricted movements or workforce deployment, or the pace at which normal business activities resume can adversely impact its scale and profitability in the current year, and will remain a key monitorable

Vulnerability of profitability to raw material price fluctuations – The margins are primarily affected by fluctuations in key raw material prices (cement, steel). However, PI fixes its raw material prices with suppliers at the time of order confirmation, thereby considerably limiting the price risks.

Highly competitive intensity, further accentuated by L1 bidding principal for awarding contracts – PI faces intense competition from not only numerous organised and unorganised players in the industry, but also from large real estate companies with integrated interior decoration operations. Moreover, the business procurement method through the L1 bidding process pressurises the margins to a certain extent.

Inherent risk associated with partnership entities like withdrawal of capital by partners - 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 has a history of capital withdrawal by partners.

High off-balance sheet exposure - ICRA notes the high off-balance sheet exposure (bank guarantees of over Rs. 74.04 crore as on June 30, 2020) 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

Although PI's working capital limit utilisation has remained moderate at 56% over the last 12 months, its liquidity profile is supported by minimal repayment obligations, discretionary nature of the capex and a healthy cushion available in its drawing power. In this context, ICRA derives comfort from the financial flexibility available to the company by way of the undrawn working capital limits and free cash/bank balance to help it maintain an adequate liquidity buffer at all times, particularly amid the current challenging operating environment. Hence, ICRA assesses PI's liquidity position as **Adequate**.

Rating sensitivities

Positive triggers – A rating upgrade is possible in case of an improvement in revenue growth and profitability, together with efficient management of working capital requirements, which will strengthen the credit profile. In addition, widening its geographical presence and diversifying the scope of work will also render support to the credit profile.

Negative triggers – Higher than anticipated decline in revenues and profitability due to factors including, but not limited to, the prolonged impact of the pandemic and stretch in receivable cycle impacting the liquidity, may result in a downward pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Rating Methodology](#) [Rating Methodology for Construction Entities](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Established in 2006, Padam Interiors is an ISO 9001:2008 certified entity that provides civil and commercial interior decoration on wide platforms like airports, offices, restaurants, shopping malls, resorts, hospitals, etc. Mr. Shankarlal Kularia and Mr. Dharamchand Kularia, who have almost two decades of experience in a related business sector, manage the firm. PI's registered office at Andheri, Mumbai, handles all administration activities. PI has a Group concern, Padam Industries, which manufactures furniture.

In FY2020(P), the company reported a net profit after tax of Rs. 36.7 crore on an OI of Rs. 463.4 crore, compared to a net profit after tax of Rs. 28.0 crore on an OI of Rs. 351.3 crore in FY2019.

Key financial indicators

	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. crore)	351.3	463.4
PAT (Rs. crore)	28.0	36.7
OPBDIT/OI (%)	15.1%	13.0%
PAT/OI (%)	8.0%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.6
Total Debt/OPBDIT (times)	0.2	0.3
Interest Coverage (times)	6.3	18.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 17-Aug-2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 -	Date & Rating in FY2019 7-Jan 2019	Date & Rating in FY2018 7-Jul-18
1	Cash Credit	Long term	15.00	-	[ICRA]BBB+(Stable)		[ICRA]BBB+ (Stable)	[ICRA]BBB(Stable)
2	Bank Guarantee	Short term	128.00	-	[ICRA]A2		[ICRA]A2	[ICRA]A3+
3	Letter of Credit	Short term	(55.00)	-	[ICRA]A2		[ICRA]A2	
4	Unallocated	Long term/ Short term	7.00		[ICRA]BBB+(Stable)/ [ICRA]A2		[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB(Stable) / [ICRA]A3+

Amount in Rs. crore
**Sublimit of BG*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	15.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	-	-	-	128.00	[ICRA]A2
NA	Letter of Credit	-	-	-	(55.00)	[ICRA]A2
NA	Unallocated	-	-	-	7.00	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: PI

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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