

May 08, 2023

Padam Interiors: Ratings reaffirmed, removed from Issuer Non-Cooperating Category and 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	10.00	10.00	[ICRA]BBB+ (Stable); reaffirmed and removed from Issuer Not Cooperating
Long-term – Fund-based/Cash credit	(5.00)	(5.00)	[ICRA]BBB+ (Stable); reaffirmed and removed from Issuer Not Cooperating
Short-term – Non-fund based – Bank guarantee	133.00	155.75	[ICRA]A2; reaffirmed and removed from Issuer Not Cooperating; assigned for enhanced amount
Short-term – Non-fund based – Letter of credit	(55.00)	(55.00)	[ICRA]A2; reaffirmed and removed from Issuer Not Cooperating
Long-term/ Short-term – Unallocated limits	7.00	9.25	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed and removed from Issuer Not Cooperating; assigned for enhanced amount
Total	150.00	175.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of ratings factors in the extensive track record of the partners of Padam Interiors (PI) as turnkey contractors in the interior designing space and its established relationship with a reputed customer base resulting in repeat orders. The ratings consider the comfortable leverage and strong debt coverage metrics in FY2023 and FY2024, backed by the low debt levels in absence of any major debt-funded capex plans. PI's order inflow is estimated to increase by 87% in FY2023 to around Rs. 707.4 crore, aided by an increase in the absorption of the commercial space post the dip in Covid-19 cases and the resultant improvement in capex related to interior designing work. Consequently, the revenues are likely to increase by 49% to around Rs. 550.0 crore and operating margins to around 14% in FY2023 (PY: 8.3%), driven by better absorption of fixed overheads. ICRA also notes the firm's moderate order book position, with an order book/OI of 1.0 times as on December 31, 2022 (0.9 times as on March 31, 2022 with execution period of 2-24 months), which provides near-term revenue visibility. As on March 31, 2024, PI is expected to have order book/OI ratio of 0.9 times. The ratings note its wide geographical presence and reputed client base, which limits the counterparty credit risk.

The ratings, however, are constrained by the susceptibility of the firm's operating profitability to the volatility in raw material costs, given the fixed-price contracts with the customers and the intense competition in the industry. It has a few slow-moving orders due to issues related to site clearance, design approvals, etc, and the 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. 97.3 crore as on December 31, 2022).

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, healthy capital structure and adequate liquidity position. The removal of the ratings from the issuer not co-operating category follows the co-operation by the firm for the rating exercise.

Key rating drivers and their description

Credit strengths

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 its 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 the partners has enabled the firm to maintain strong relationship with its customers and suppliers.

Established relationship with reputed clients; wide geographical reach with presence in multiple states; healthy order book position – 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. Its order inflow is estimated to increase by 87% in FY2023 to around Rs. 707.4 crore, backed by an increase in the absorption of the commercial space post the dip in Covid-19 cases and the resultant improvement in capex related to interior designing work. Consequently, the revenues are likely to increase by 49% to around Rs. 550.0 crore and operating margins to around 14% in FY2023 (PY: 8.3%), driven by better absorption of fixed overheads. ICRA also notes the firm's moderate order book position, with an order book/OI ratio of 1.0 times as on December 31, 2022 (0.9 times as on March 31, 2022 with execution period of 2-24 months), which provides near-term visibility to revenues. As on March 31, 2024, it is expected to have order book/OI of 0.9 times.

Comfortable capital structure and coverage indicators – The ratings consider the comfortable leverage and strong debt coverage metrics in FY2023 and FY2024, backed by the low debt levels in absence of any major debt-funded capex plans.

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 the volatility in raw material costs, given the fixed-price contracts with the customers and the intense industry competition. It has a few slow-moving orders due to issues related to site clearance, design approvals, etc, and the ability to pass on the increased costs remains to be seen. Further, 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.

High off-balance sheet exposure – ICRA notes the high off-balance sheet exposure (bank guarantees of around Rs. 97.3 crore as on December 31, 2022) 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 ~22% during July 2022 to December 2022) and absence of any debt-funded capex plans. Further, PI has free cash and liquid investments of Rs. 3.8 crore as on December 31, 2022.

Rating sensitivities

Positive factors – Significant increase in revenues and profitability, on a sustained basis, 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	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the firm's standalone financial statements

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. PI's 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

Padam Interiors	FY2021 (Audited)	FY2022 (Audited)	9M FY2023 (Provisional)
Operating income (Rs. crore)	329.2	367.9	392.9
PAT (Rs. crore)	13.5	19.6	44.4
OPBDIT/OI (%)	6.5%	8.3%	14.1%
PAT/OI (%)	4.1%	5.3%	11.3%
Total outside liabilities/Tangible net worth (times)	1.3	1.2	NA
Total debt/OPBDIT (times)	0.9	0.9	NA
Interest coverage (times)	9.8	12.9	37.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NA: Not available; all ratios as per ICRA's calculations

Source: Company's audited and provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Type	Current rating (FY2024)		Chronology of rating history for past 3 years			
			Amount rated (Rs. crore)	Amount outstanding as on December 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1	Fund-based – Cash credit	Long-term	10.00	7.9	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund-based – Cash credit	Long-term	(5.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	-
3	Non-fund based – Bank guarantee	Short-term	155.75	97.3	[ICRA]A2	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
4	Non-fund based – Letter of credit	Short-term	(55.00)	-	[ICRA]A2	[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]A2	[ICRA]A2
5	Unallocated limits	Long-term/Short-term	9.25	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2; ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Cash credit	Simple
Fund-based – Cash credit	Simple
Non-fund based – Bank guarantee	Very simple
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
-	Cash credit	-	-	-	10.00	[ICRA]BBB+ (Stable)
-	Cash credit	-	-	-	(5.00)	[ICRA]BBB+ (Stable)
-	Bank guarantee	-	-	-	155.75	[ICRA]A2
-	Letter of credit	-	-	-	(55.00)	[ICRA]A2
-	Unallocated limits	-	-	-	9.25	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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Branches



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