

Smile Interiors Pvt. Ltd.

October 17, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based - CC	10.0	[ICRA]B(Stable); assigned
Total	10.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]B (pronounced ICRA B) for the Rs. 10.0-crore fund-based facilities of Smile Interiors Pvt. Ltd. The outlook on the long-term rating is Stable.

Rationale

The assigned rating factors in the stable growth in the operating income of the company over the years with healthy profit metrics. Due to a healthy demand of handicrafts in the overseas market, the company has been able to achieve operating margin of 11.4%, net profit margin of 7.2% and the return indicators stood at 25.5% in FY2018. The rating also takes into account the extensive experience of the promoters in the handicrafts industry and positive demand of the handicraft products in the overseas market.

The rating, however, is constrained by the intensely competitive nature of the industry and vulnerability of SMPL's profitability to fluctuations in raw material prices. Further, the ratings take into account the risk of adverse movement in foreign exchange rates in absence of a hedging policy.

Going forward, the company's ability to maintain its operating profit margins and manage its working capital effectively would be the key rating sensitivities.

Outlook: Stable

ICRA believes that SMPL will continue to benefit from the extensive experience of the promoters in the handicrafts industry and a healthy demand of Indian handicraft items in the developed countries. This will continue to charter a stable growth trajectory for the company. The outlook may be revised to Positive if substantial growth in revenues and profitability strengthen the financial risk profile of the company. The outlook maybe revised to Negative if decline in the revenues and profitability, or any pressure on the liquidity front, impact the overall financial health of the company.

Key rating drivers

Credit strengths

Consistent growth in the operating income with healthy profitability- The company has been able to achieve a consistent growth in the operating income over the years on account of healthy demand of handicraft products in the overseas market. Due to availability of cheap labour and high value addition to the final product, the company has been

able to consistently maintain high operating profit margins between 10-11% and net profit margins between 6-7% over the years.

Comfortable capital structure - The company has modest coverage indicators on account of absence of any fixed term debt liabilities. As on March 31, 2018 the total debt of the company stands at Rs. 13.78 crore out of which Rs. 10.42 crore are a part of working capital facility. The coverage indicators improved with Interest coverage of 6.2 times in FY2018 from 3.4 time in FY2017 on account of no dividend payout in FY2018 (as per the provisional financial statements)

Favourable government policies (duty drawbacks and other export incentives) for handicrafts industry – Various trade exhibitions organised by Export Promotion Council for Handicrafts (EPCH) and other monetary incentives provided by the Government of India have given a boost to the handicrafts industry.

Credit challenges

Exposure to forex risk as majority of the sales is foreign currency denominated – The company's revenues are denominated in foreign currency. In absence of a hedging policy, the company's profitability is vulnerable to the risk of adverse movement in foreign exchange rates.

Intensely competitive nature of industry because of low capital investment and low entry barriers -India is the leading manufacturer of handicraft items in the world and there is a healthy demand for Indian handicraft items in the developed countries. Strong overseas demand and low input cost have led to the entry of several medium and big size players in the handicraft export business, resulting in stiff industry competition.

Smaller scale of operations which restricts the operational benefits- The scale of operations remains relatively smaller with a top line of Rs. 34 crore in FY2018 resulting in lower operational synergies vis a vis larger players.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 2009, Smile Interiors Pvt. Ltd. is engaged in the manufacturing and exports of handicraft items. The company has its manufacturing facility at Jaipur, Rajasthan, with a capacity to manufacture about 3,00,000 units of wooden and iron articles. The product profile majorly comprises of decorative wooden items made up of combination of wood, brass, iron and wooden furniture such as dinner tables, cabinets, stools and sofas and iron articles such as lamps, chairs, watches etc. The company exports the handicrafts items to US, UAE and European markets.

In the year ended March 31, 2018, the company reported an OI of Rs. 35.5 crore and a net profit after tax of Rs. 2.5 crore on a provisional basis against an OI of Rs. 34.2 crore and net profit after tax of Rs. 1.6 crore in the year ended March 31, 2017.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	27.3	34.2
PAT (Rs. crore)	1.9	1.6
OPBDIT/OI (%)	13.8%	9.7%
RoCE (%)	36.6%	25.6%
Total Debt/TNW (times)	13.9	13.6
Total Debt/OPBDIT (times)	2.9	3.5
Interest Coverage (times)	3.5	3.3
NWC/OI (%)	27%	10%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019 October 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund Based/CC	Long Term	10.0	8.10	[ICRA]B (stable)			
Total			10.0	8.1				

**Outstanding as on March 31, 2018.*

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	NA	9.9%	NA	8.10	[ICRA]B (stable)

Source: Sanction letter

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