

Phoenix International Limited

April 05, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based	95.0	95.0	[ICRA]BB(Negative); reaffirmed, Outlook revised from Stable and removed from 'ISSUER NOT COOPERATING' category
Total	95.0	95.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation and outlook revision take into account the stretched working capital position of Phoenix International Limited (PIL). ICRA also notes the continued high customer-concentration risk with Tata Teleservices (TT) (one of the tenants) accounting for around 46% of the lease rentals. Though the merger of TT with Bharti Airtel has been approved, the impact of the same is yet to be seen. Hence, the tenancy risk remains for PIL. The rating continues to take note of the weak coverage indicators and stretched working capital, particularly in the footwear segment.

However, the rating takes comfort from the promoters' experience in the footwear segment of more than two decades. ICRA also takes comfort from funds returned by the Group concerns. However, the risk of funds getting deployed again in the Group companies persists. The ratings also factor in the consistent rental escalations and incremental area rented out from FY2019, resulting in additional income and improved rental cover.

Going forward, the ratings would remain dependent upon PIL's ability to reduce the tenancy risk and maintain comfortable cashflows to service the debt.

Outlook: Negative

ICRA believes that PIL will continue to be impacted by the tenancy risk, with dependence on TT for rentals. The outlook may be revised to Stable if the company is able to reduce its dependence on a single tenant and improve its coverage indicators, particularly in the footwear segment.

Key rating drivers

Credit strengths

Extensive experience of promoters in footwear industry: The promoters of PIL have been involved in the shoe manufacturing business since 1995. The company has been manufacturing shoe uppers since 2006.

Increment in rental area and continued rental escalations: There has been an increase in area let out to the existing tenants by 22% in 9M FY2019. This has translated into additional rental income to Rs. 1.54 crore in 9M FY2019 vis-à-vis Rs. 1.33 crore in FY2018. There have been continuous escalations in rentals as per the previously agreed terms and conditions, resulting in an annual increase in the rental income.

Credit challenges

Tenancy risk as high concentration on one of the tenants: The company has only five tenants in its premises. Out of these, TT is the tenant contributing most of the rental income. The rental income contributed by TT to the overall rental income stood at 46% as on December 31, 2018 compared with 52% as on March 31, 2018. The marginal dip in contribution was on account of the additional area let out to another tenant. The impact of the recent acquisition of TT by Bharti Airtel remains to be seen.

Weak debt coverage indicators amid stretched receivables and payables: The coverage indicators for PIL improved YoY in FY2018 but remained weak. The TD/OPBDITA (total debt to operating income) ratio stood at 5.8 times in FY2018 compared with 7.8 times in FY2017. The interest coverage improved to 1.5 times in FY2018 from 1.1 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.1 times in FY2018. The company has been managing its working capital cycle by matching its receivables and payables days, further stretched in FY2018 to 545 days and 824 days respectively as both sole buyer and supplier are group companies.

Stagnant footwear operations: The company's operations in the footwear segment have remained stagnant over the years. The revenues have been constantly fluctuating in the range of Rs. 20–Rs. 25 crores. The company lowered its production in the footwear segment owing to the uncertainty in the applicable rate in footwear export under Goods and Services Tax (GST) regime. However, post that, there has not been any considerable improvement in the overall footwear-related income.

Liquidity position

PIL has free cash reserves of Rs. 48.5 crore as on March 31, 2018. However, in case of any requirement, there persists the risk of funds getting deployed again in the Group companies. Further, PIL has substantial investments in liquid instruments, which provide additional cushion to liquidity. The current ratio of the company is comfortable at 2.3 times as on March 31, 2018. Also, the stretched receivables cycle, in case of footwear operations, remains a concern. Nonetheless, the debtors are currently being funded by creditors, both being Group companies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Methodology on Debt Backed By Lease Rentals (LRD-Lease Rental Discounting Loans) Methodology on footwear industry
Parent/Group Support	Parent/Group Company: Not applicable
Consolidation / Standalone	Standalone

About the company

The company has experience in the footwear segment as one of its subsidiaries was involved in footwear production. PIL's shoe manufacturing unit was located in Noida (Uttar Pradesh) and commenced commercial production in 1995. While the business operations were profitable till FY2000, the company discontinued production owing to labour problems and declared a lockout at the manufacturing unit. Thereafter, from FY2000 to FY2005, the company was largely involved in trading of shoe uppers in the export markets. In FY2006, PIL restarted manufacturing of leather shoe uppers from a leased premise in Chennai (Tamil Nadu). Further in FY2007, the company's erstwhile manufacturing facility in Noida was refurbished as a commercial office space and leased out to five tenants.

In FY2018, the company reported a standalone net profit of Rs. 1.9 crore on an OI of Rs. 39.3 crore compared with a net loss of Rs. 0.7 crore on an OI of Rs. 40.9 crore in the previous year. As per audited Q3 FY2019 results, the company achieved a top line of Rs. 32.3 crore.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	40.9	39.3
PAT (Rs. crore)	-0.7	1.9
OPBDIT/ OI (%)	28.88%	39.22%
RoCE (%)	5.99%	7.12%
Total Debt/TNW (times)	1.36	1.30
Total Debt/OPBDITA(times)	7.78	5.81
Interest Coverage (times)	1.11	1.47
NWC/OI (%)	32.9%	29.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Term Loan	95.0	85.6	April 2019 [ICRA]BB(Negative); Reaffirmed and removed from 'Issuer not cooperating' category	November 2018 [ICRA]BB (Stable); ISSUER NOT COOPERATING	May 2017 [ICRA]BB (Stable); Reaffirmed	July 2016 [ICRA]BB (Stable); Reaffirmed

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 <i>Source: PIL</i>	Term Loan	April, 2015	NA	March, 2027	95	[ICRA]BB(Negative)

ANALYST CONTACTS

K. Ravichandran

+91-44-45364301

ravichandran@icraindia.com

Manish Ballabh

+91-124-4545812

manish.ballabh@icraindia.com

Gaurav Singla

+91-124-4545366

gaurav.singla@icraindia.com

Nishant Misra

+91-124-4545862

nishant.misra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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