Fusion Industries Limited

October 31, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Bank Facilities	21.50	IVR BB+/Stable Outlook(IVR Double B Plus with Stable Outlook)
3.	Short Term Bank Facilities	8.50	IVR A4+ (IVR A Four Plus)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating draws comfort from the company's experienced promoters, established brand and satisfactory capital structure with moderate debt protection metrics. These strengths are partially offset by stagnant operating income with declining operating profitability,highly competitive industry & low entry barriers, volatile input prices and stretched liquidity marked by high working capital intensity.

Key Rating Sensitivities:

Upward factors

- Significant improvement in scale of operations and profitability
- Improvement in liquidity through increase in cash accruals and efficient working capital management

Downward factors

- Further elongation of operating cycle
- Moderation in the capital structure with deterioration in overall gearing to more than 2x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

Mr.Trilok Chand Chandna, the Chairman of the company has been into diverse business activities relating to plastics and has overall experience of over three decades. He is further assisted by his sons, Mr.Yunik Chandna and Mr.Karan Chandna in managing the day to day operations of the Company. The business risk profile of the company is well supported by extensive experience of its promoters.

Established brand

The company has a strong network of distributors and established its brand name "Fusion" in the market. The Company has well established distribution network with around 25 retail outlets in the name of Fusion House, Fusion World and Fusion India.

Satisfactory capital structure with moderate debt protection metrics

The capital structure of the company remained above-average in FY19as reflected in TOL/TNW of 2.16x. The capital structure is expected to improve further over the medium term with higher accretion of profits to net worth. The debt protection metrics of the company as reflected by the interest coverage ratio and Total debt to GCA deteriorated from 2.15x and 5.77x respectively in FY18 to 1.98x and 7.57x respectively in FY19 mainly due to moderation in operating profit and consequent deterioration in cash accruals.

Key Rating Weaknesses

Highly competitive industry & low entry barriers

The manufacturing of pipes and tubes industry is highly competitive with more than two-third of the total number of players being unorganized. Hence, the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability. Also, due to low entry barriers in the industry and low value-added nature of the products, high competition is the inherent risk associated with the industry.

Stagnant operating income with declining operating profitability

The total operating income of the company remained stagnant over the past three years (FY17-FY19). Further, During H1FY20, the company has achieved a PBT of Rs.1.30crore on revenue of Rs.43crore. The pipe segment exhibited a continuous growth at a CAGR of ~12%during the past three fiscals ending FY19.However, the water tank segment witnessed a continuous moderation during the same period which restricts the growth in its overall scale of operation. The company discontinued the water tank segment during FY20. The operating margin has continuously declined from 10.21% in fiscal 2017 to 8.42% in fiscal 2019 mainly due to high competition in the operating spectrum. Further, with moderation in operating profit the PAT level and margin dampened in FY19. The operating margin is estimated to remain around 8-9% in next three fiscals. Any further decline in profit margin can weaken credit risk profile.

Volatile input prices in correlation with the petroleum cycle

Polymer granules is the main raw material required for production of plastic pipes, prices of which are subject to high volatility on account of price changes in Crude oil etc. Thus, the operating profitability of the company will remain vulnerable to volatility in input prices.

Stretched liquidity marked by high working capital intensity

The operations of the company are working capital intensive as reflected in operating cycle of around four-five months in the last three fiscals ending FY19.The operating cycle has remained elongated on account of stretch in receivables and high inventory. The company manufactures various types of pipes and fittings and has to hold a stock for all the items resulting in high inventory holding. The average cash credit utilisation of the company remained high at ~95% in the last 12 months ended on September, 2019. High working capital intensity coupled with moderation in cash accruals in FY19 indicates a liquidity pressure for the company.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Stretched liquidity is marked by tightly matched accruals over the medium term as against repayment obligations along with high working capital intensity of the business. Further, the working capital limits remained highly utilized over the twelve months ended September 2019, along with instances of ad-hoc limits availed by the Company which indicates a limited liquidity buffer.

About the Company

Fusion Industries Limited (FIL) was originally incorporated as Yee Kay Technocrat Pvt Ltd in 2002 by Chandna family under the guidance of Mr.Trilok Chand Chandna. The Company commenced trading in pipes and fittings in 2004. Subsequently the company was reconstituted as a closely held public limited company with the current name in 2013.Presently, FIL is engaged in manufacture of PPR Pipes & Fittings, PVC Pipes & Fittings, CPVC Pipes & Fittings, UPVC Pipes & Fittings, SWR Pipes and Submersible Pipes.Till FY19,the company was engaged in manufacturing of water tanks along with pipes. However, the company has discontinued the business of water tanks in current fiscal (FY20).The company sells its products under the brand name "Fusion".

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	90.72	91.24
EBITDA	8.80	7.68
PAT	2.44	0.92
Total Debt	30.15	26.27
Tangible Net worth	20.57	21.59
EBITDA Margin (%)	9.70	8.42
PAT Margin (%)	2.65	1.00
Overall Gearing Ratio (x)	1.47	1.22

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL Ratings has moved the rating into Issuer Not Cooperating category (Withdrawn) as per PR dated March 12, 2018.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits-Cash Credit	Long Term	20.00	IVR BB+/Stable	-	-	-
2	Long Term Fund Based Limits – Term Loan	Long Term	1.50	IVR BB+/Stable	-	-	-
3.	Short Term Non-Fund Based Limits – LC/BG	Short Term	8.50*	IVR A4+	-	-	-

**includes proposed LC / BG of Rs.5.50crore*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	1Y MCLR+2.70%+0.30%	-	20.00	IVR BB+/Stable
Long Term Bank Facilities- Term Loan	-	1Y MCLR+2.70%+0.30%	Varied	1.50	IVR BB+/Stable
Short Term Bank Facilities – LC/BG	-	-	-	8.50*	IVR A4+

**includes proposed LC / BG of Rs.5.5crore*