

Press Release

Fusion Industries Limited

January 14, 2021

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities	21.50	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable outlook)	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable outlook)	Reaffirmed
Short Term Non-Fund Based Bank Facilities	8.50*	IVR A4+ (IVR A Four Plus)	IVR A4+ (IVR A Four Plus)	Reaffirmed
Total	30.00 (Thirty crore)			

*Rs. 5.50 crore of facilities is on proposed basis

Details of Facilities are in Annexure 1

Detailed Rationales

- The reaffirmation of the rating to the bank facilities of Fusion Industries Limited has continued to derive comfort from its experienced promoters, established brand and Comfortable gearing ratio. The rating strengths are partially offset by highly competitive industry & low entry barriers, moderation in operating performance, volatile input prices in correlation with the petroleum cycle, and stretched liquidity marked by high working capital intensity.

Upward Factors



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- Significant turnaround in operating performance with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward Factors

- Further deterioration in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action
- Variation of more than 5% in key financial figures of audited financial statements from reported figures of provisional financial statements could trigger the negative rating action.

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 distributor 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 along with.

Comfortable gearing ratio

Company has reported comfortable gearing ratio at 1.12x as on March 31, 2020 reflecting the comfortable capital structure. Also, total indebtedness reflected in TOL/ANW stood at 1.83x as on March 31, 2020.

Key Weaknesses

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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.

Moderation in operating performance

Revenue fell in year FY20 to Rs. 79.90 crore from Rs. 91.23 crore in FY19 due to discontinued operations of water tank manufacturing. EBITDA margin fell from 9.33% in FY18 to 7.47% in FY20. Deterioration in operating performance has led to fall in interest coverage at 2.04x in FY20 from 2.21x in FY19.

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 FY20. 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 utilization of the company remained high at ~89% in the last 12 months ended on Nov, 2020. High working capital intensity coupled with moderation in cash accruals in FY19 indicates a liquidity pressure for the company.

Analytical Approach: Standalone

Applicable Criteria:

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Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

The liquidity position of the company is stretched marked by the moderation in gross cash accruals against debt obligations. FIL has working capital intensive nature of business required to maintain Just in time inventory. Average working capital utilization for the last 12 months ended at Nov, 2019 stood at around 89% reflecting marginal cushion to meet incremental requirements. However, current ratio of the company stood at 1.52x as on March 31, 2020 imparting comfort for meeting its near-term liabilities.

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*	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	91.23	79.90
EBITDA	7.80	5.97
PAT	0.91	0.36
Total Debt	28.59	28.88
Tangible Net worth	19.27	19.71

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For the year ended*	31-03-2019	31-03-2020
EBITDA Margin (%)	8.55	7.47
PAT Margin (%)	1.00	0.45
Overall Gearing Ratio (x)	1.14	1.12

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash credit	Long Term	20.00	IVR BB+ / Stable Outlook	IVR BB+ / Stable (October 31, 2019)	-	-
2.	Term Loan	Long Term	1.50	IVR BB+ / Stable Outlook	IVR BB+ / Stable (October 31, 2019)	-	-
4.	LC/BG	Short Term	8.50*	IVR A4+	IVR A4+ (October 31, 2019)	-	-

*Rs. 5.50 crore of facilities is on proposed basis

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.

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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	-	-	Revolving	20.00	IVR BB+ / Stable
Long Term Bank Facilities- Term loan	-	-	Varied	1.50	IVR BB+ / Stable
Short Term Bank Facilities- LC/BG	-	-	Revolving	8.50*	IVR A4+

*Rs. 5.50 crore of facilities is on proposed basis