

Marwar Carpets International

February 02, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	0.50	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	2.90 (Reduced from 6.50)	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable / A Four)	Reaffirmed
Short Term Bank Facilities	16.60 (Enhanced from 13.00)	CARE A4 (A Four)	Reaffirmed
Total Facilities	20.00 (Rs. Twenty Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Marwar Carpets International (MCI) remain constrained on account of small though growing scale of operations, moderate profitability margins, weak coverage indicators, and elongated operating cycle. Further, the rating remained constrained by Constitution of the entity being a partnership firm, foreign exchange exposure, highly competitive industry and stretched liquidity position of the firm. The rating, however, will draw comfort from experience partners and location advantage

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sizable improvement in total operating income to ₹ 90.00 crore and above on a sustained basis.
- Improvement in PBIDLT margin and PAT margin above 10% and 3% respectively on continuous basis
- Improvement in operating cycle of below 100 days on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade

- Deterioration in overall gearing level above 3.50x on sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small though growing scale of operations with low partners' capital base: The scale of operations of the firm stood small as marked by total operation income and gross cash accrual at ₹51.91 crore and ₹1.75 crores respectively for FY21 (FY refers to period April 1 to March 31; based on audited results) as against ₹43.44 crores and ₹1.53 crores respectively for FY20. The increase in total operating income was on account of higher intake from the existing customers. Further, the partners' capital base of the firm stood at ₹7.81 crore as on March 31, 2021. The small scale of operations limits the firm's financial flexibility in times of stress and deprives it of scale benefits. For the period FY19-FY21, Firm's total operating income grew by 84% from ₹28.12 crore to ₹51.91 crore. The firm has booked revenue of ₹ 55 crore in 9MFY22

Elongated operating cycle: MCI's operating cycle has improved and stood elongated as weaving of one hand tufted carpet takes 90 days. The average operating cycle of the firm improved to 139 days in FY21 from 165 days in FY20 on account of improvement in inventory days. The firm is required to maintain adequate inventory of raw material for smooth running of its production processes resulting in average inventory holding period of 186 days in FY21 as against 207 days in FY20. The firm provides credit period of maximum 1-2 months to its clients although the term of repayment varies from client to client resulting in average collection period of 50 days in FY21 as against 43 days in FY20. The firm procures the raw material from domestic market and receives an average payable period of around 2-3 months from its suppliers.

Highly competitive industry: The firm operates in a competitive industry wherein there is presence of a large number of players in the unorganized and organized sectors. Hence, the players in the industry do not have any pricing power and are exposed to competition induced pressures on profitability.

Constitution of the entity being a partnership firm: MCI constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision for the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in small scale of operations for the firm.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Foreign exchange exposure: The firm is primarily catering to the export market and its export contribution to total sales stood at 95% for FY21. The raw material is completely procured from domestic markets. With initial cash outlay for procurement in domestic currency and significant chunk of sales realization in foreign currency, the firm is exposed to the fluctuation in exchange rates. However, the firm partially hedges its foreign currency exposure through forward contracts. Nevertheless, for the uncovered portion, the firm's profitability margins are exposed to volatility in foreign exchange. Moreover, any change in government policies, either domestic or international is likely to affect the firm's revenues. Earnings are also susceptible to strict regulatory policies relating to tariff barriers (custom duty), non-tariffs barriers (restriction on the quality of imports), anti-dumping duties, international freight rates and port charges.

Key Rating Strengths

Experienced Partners: Incorporated in 1998, Marwar Carpets International (MCI) is a family run business and is currently managed by Ms. Swati Aggarwal, Ms. Manju Aggarwal, Mr. Vipul Aggarwal and Mr. Nikunj Aggarwal. Ms. Swati holds a diploma in Textile Designing from NIFT and looks after the designing department of the firm. Mr. Vipul and Mr. Nikunj are commerce graduates and look after marketing and finance department of the firm respectively. MCI has in-house departments for designing, dyeing, weaving, tufting and final packing of the merchandise. Further, long presence in industry has ensured in establishing a healthy relationship with both customers and suppliers.

Moderate profitability margins and coverage indicators: The profitability margins of the firm are directly associated with quality and designing aspect. The high quality and complex design-based carpet normally fetch better margins. The profitability margins of the firm improved though remain moderate as marked by PBILDT margin of 8.99% in FY21 as against 6.24% in FY20. The improvement in margins is on account of decrease in overhead expenses of the firm. Further, on account of moderate profitability and higher debt the debt service coverage indicators remained weak as marked by interest coverage and total debt to GCA of 1.60x and 12.32x, respectively for FY21 as against 1.39x and 15.08x respectively for FY21 (A).

Locational Advantage: Panipat is well established manufacturing hub for carpet handloom industry. The firm benefits from the location advantage in terms of easy accessibility to carpet weavers. Additionally, various raw materials required in manufacturing of carpets are readily available owing to established supplier base in the same location.

Liquidity: Stretched

The liquidity position of the firm remained stretched as marked by tightly matched repayment obligations. The firm has generated the GCA of 1.75 Crores in FY21 and is expected to envisage GCA of Rs.1.90 against repayment of Rs.1.68 lakhs in same year. Further, the working capital limits of the firm is almost 80% utilised for the past twelve months ending December 2021. The firm has low cash and bank balance of 0.17 Crores as on March 31, 2021

Analytical approach: Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Policy on default recognition](#)

[Short Term Instruments](#)

[Financial Ratios – Non financial Sector](#)

[Manufacturing Companies](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

Delhi based Marwar Carpets International (MCI) was established in, 1998 as a partnership firm and is currently managed by Ms. Swati Aggarwal, Ms. Manju Aggarwal, Mr. Vipul Aggarwal and Mr. Nikunj Aggarwal. The firm is 100% Export Oriented Unit (EOU) engaged in the manufacturing and export of handmade carpets & druggets and have in-house handlooms for manufacturing the same and has weaving centre in Panipat, Haryana. The major raw materials required are raw wool, woollen yarn, cotton yarn, polyester yarn, silk yarn, staple yarn, dyes & chemicals, etc. The firm procures raw material from domestic market i.e. Panipat, Bikaner etc and makes hand turfed as well as well machine looms carpets & druggets. The firm is exporting its product in overseas markets and is serving more than 50 clients in USA, United Kingdom, etc. directly.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY2022*
Total operating income	43.44	51.91	55.00
PBILDT	2.71	4.66	NA
PAT	0.82	0.93	NA
Overall gearing (times)	6.42	2.76	NA
Interest coverage (times)	1.39	1.60	NA

A: Audited; NA: Not Available

*Refers to the period from April 1, 2021, to December 31, 2021.

Status of non-cooperation with previous CRA: CRISIL has conducted the review and has maintained Marwar Carpets International as "Not Cooperating" vide its press release dated September 23, 2021.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-Working Capital Limits		-	-	-	14.00	CARE A4
Fund-based - LT-Bank Overdraft		-	-	-	0.50	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	2.60	CARE A4
Fund-based-LT/ST		-	-	-	2.90	CARE BB-; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - ST-Working Capital Limits	ST	14.00	CARE A4	-	1)CARE A4 (04-Feb-21) 2)CARE A4; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE A4 (11-Sep-19)	-
2	Fund-based - LT-Bank Overdraft	LT	0.50	CARE BB-; Stable	-	1)CARE BB-; Stable (04-Feb-21) 2)CARE B; Stable; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE B+; Stable (11-Sep-19)	-
3	Non-fund-based - ST-Letter of credit	ST	2.60	CARE A4	-	1)CARE A4 (04-Feb-21) 2)CARE A4; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE A4 (11-Sep-19)	-
4	Fund-based-LT/ST	LT/ST*	2.90	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (04-Feb-21) 2)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE B+; Stable / CARE A4 (11-Sep-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - ST-Working Capital Limits	Simple
3	Fund-based-LT/ST	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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