

## Marwar Carpets International

February 04, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	0.50	CARE BB-; Stable (Double B Minus; Outlook: Stable )	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Long Term / Short Term Bank Facilities	6.50	CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable/ A Four )	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable / CARE A4; (Single B ; Outlook: Stable / A Four)
Short Term Bank Facilities	13.00	CARE A4 (A Four )	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
<b>Total Bank Facilities</b>	<b>20.00</b> <b>(Rs. Twenty Crore Only)</b>		

*Details of facilities in Annexure-1*

*In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Marwar Carpets International (MCI) and in line with the extant SEBI guidelines, CARE revised the rating(s) of bank facilities of the company to 'CARE B; Stable/CARE A4; ISSUER NOT COOPERATING'. However, the firm has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the ratings stand at 'CARE BB-; Stable/CARE A4'.*

### Detailed Rationale & Key Rating Drivers

*The ratings assigned to the bank facilities of Marwar Carpets International (MCI) have been revised on account of improvement in scale of operations, and overall gearing ratio of the firm. Further, the rating will draw comfort from experience partners and location advantage. However, the ratings continue to remain constrained by small though growing scale of operations, Weak profitability margins and coverage indicators, 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.*

### Rating Sensitivities

#### Positive Factors

- Sizable improvement in total operating income to Rs. 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

- Deterioration in overall gearing level above 1.50x on sustained basis

### 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.

### 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.

**Moderate capital structure**

As on March 31, 2020, the debt profile of MCI's comprises of term loan of Rs.1.85 crores, vehicle loan of Rs.0.12 crore, working capital borrowings of Rs.11.01 crores and unsecured loans of Rs.2.63 crores. The capital structure of the firm stood moderate as marked by overall gearing ratio which stood at 1.42x as on March 31, 2020 as against 1.30x as on March 31, 2019 owing to higher reliance on external borrowings by the firm. The team has classified unsecured loan as quasi equity to the tune of Rs.7.40 crore and Rs.6.45 core for FY20 (A) and FY19 (A) respectively as the same is subordinated to debt as per sanction letter which leads to improvement in gearing from 6.42x to 1.42x in FY20 (A).

**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 Rs.43.44 crore and Rs.1.28 crore respectively for FY20 (FY refers to period April 1 to March 31; based on audited results) as against Rs. 28.12 crore and Rs.0.96 crore respectively for FY19. 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 low at Rs.3.58 crore as on March 31, 2020. The small scale of operations limits the firm's financial flexibility in times of stress and deprives it of scale benefits. For the period FY18-FY20, VEI's total operating income grew from Rs.32.97 crore to Rs.43.44 crore owing to higher intake from the customers. Further, the firm has achieved a total operating income of ~Rs.37.50 crore for 9MFY21 (refers to period April 1 to December 31; based on provisional results) and has an order book of Rs.22.00 crore to be executed by August'21.

***Weak 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 stood weak as marked by PBILDT margin of 6.24% in FY20 as against 9.88% in FY19. The decline in margins is on account of increase in material costs and employee costs of the firm.

Further, on account of weak profitability and higher debt the debt service coverage indicators remained weak as marked by interest coverage and total debt to GCA of 1.39x and 8.37x, respectively for FY20 as against 1.55x and 11.67x respectively for FY19 (A). The marginal improvement in the total debt to GCA was on account of increase in GCA levels of the firm.

***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 from 280 days in FY19 to 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 207 days in FY20 as against 307 days in FY19. The firm provides credit period of maximum 1-2 months to its clients although the terms of repayment varies from client to client resulting in average collection period of 43 days in FY20 as against 52 days in FY19. The firm procures the raw material from domestic market and receives an average payable period of around 2-3 months from its suppliers. The operations of the firm are working capital intensive in nature as reflected by higher average utilization of its sanctioned working capital limits to around 80%.

***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.

***Foreign exchange exposure***

The firm is mainly focused in the export market and its export contribution to total sales stood at 95% for FY20. 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 but are being managed under forward cover of currency.

***Impact of Covid-19***

The firm has witnessed lower consumption of the final products from their customers owing to the pandemic. Once the covid-19 impact is over, the consumption are expected to be enhanced. The major impact of slowdown owing to Covid-19 has been from March onwards. The production of the firm was shut for a period of 15 days from March 25'2020 and the same were resumed in second week of April after taking approvals and guidelines from the government bodies with a

labour capacity of 200 employees. The firm faced shortage of containers while executing the export orders. It has recorded a TOI of Rs.37.50 crore till December 31, 2020 and has an executed order book of Rs.22.00 crore to be executed by August'21. Moreover, the realization has also been affected due to the Covid-19 and the same is expected to speed up.

#### **Liquidity analysis: Stretched**

The liquidity is stretched as marked by highly utilized bank limits to the extent of ~80%. The firm has repayment obligations of Rs.0.30 crore in FY20 as against gross cash accruals of Rs.1.28 crore in FY20 and. The cash and bank balances stood modest at Rs.0.22 crore as on March 31, 2020. The firm had availed moratorium from April-June 30, 2020 as provided by the bank in lines with RBI guidelines in wake of COVID-19 which were repaid in September'20.

#### **Analytical approach:**

Standalone

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the Firm**

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 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)	FY19 (A)	FY20 (A)
Total operating income	28.12	43.44
PBILDT	2.78	2.71
PAT	0.37	0.57*
Overall gearing (times)	1.30	1.42
Interest coverage (times)	1.55	1.39

A: Audited

\*The tax amounting to Rs.0.25 crore has been deducted from PBT as per the ITR received from the client.

**Status of non-cooperation with previous CRA:** CRISIL has put its rating under "ISSUER NOT COOPERATING" via Press Release dated June 29, 2020

**Any other information:** Not Applicable

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

#### **Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	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	-	-	-	12.40	CARE A4
Fund-based - LT-Bank Overdraft	-	-	-	0.50	CARE BB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	0.60	CARE A4
Fund-based-LT/ST	-	-	-	6.50	CARE BB-; Stable / CARE A4

\*Issuer not cooperating; Based on best available information

## 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-Working Capital Limits	ST	12.40	CARE A4	1)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 B; Stable; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE B+; Stable (11-Sep-19)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	0.60	CARE A4	1)CARE A4; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE A4 (11-Sep-19)	-	-
4.	Fund-based-LT/ST	LT/ST	6.50	CARE BB-; Stable / CARE A4	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (25-Jun-20)	1)CARE B+; Stable / CARE A4 (11-Sep-19)	-	-

\*Issuer not cooperating; Based on best available information

## 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 the 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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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