

Bhadohi Carpets

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	19.00	CARE BB+; Stable / CARE A4+	Reaffirmed
Short Term Bank Facilities	14.00	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Bhadohi Carpets (BDC) continues to remain constrained by its modest and fluctuating scale of operations, geographic and customer concentration risk and elongated operating cycle. Further, the ratings continue to remain constrained by risk associated with the constitution of the entity being a partnership firm, foreign exchange fluctuation risk and fragmented and unorganized nature of carpet industry and increasing competition from China along with slowdown in the European market.

The ratings, however, continue to draw comfort from experienced partners coupled with long track record of operations, favourable location of operations, moderate profitability margins, moderate capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume driven growth in business leading to substantial growth in the scale of operations of the firm on sustained basis.
- Improvement in the profitability margins as marked by PBILDT margin of above 14.00% on a sustained basis.

Negative factors

- Any significant deterioration in the capital structure of the firm as marked by overall gearing ratio of above 2.00x.
- Decline in profitability margins as marked by PBILDT margin of below 11.00% on a sustained basis.
- Continued elongation in the operating cycle of the firm beyond 200 days.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects that the entity will continue to benefit from the experienced partners of the entity in carpets industry and shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

Modest and fluctuating scale of operations: The firm's scale of operations has been fluctuating over the past 3 years (FY22-FY24), primarily influenced by a series of external disruptions. Initially, the COVID-19 pandemic precipitated a contraction in activities, followed by a period of recovery from FY22 and the same trend led to higher quantity sold resulting in an increase in the scale during FY23. However, from FY24, the impact of the slowdown in the European market led to diminishing demand for the discretionary products from the export market. Thus, BDC's scale of operations has declined and continue to remain modest as marked by total operating income (TOI) which stood at Rs.95.90 crore and gross cash accruals (GCA) of Rs.7.61 crore respectively, during FY24 (FY refers to the period April 1 to March 31; based on provisional results) as against Rs.119.26 crore and Rs.8.69 crore respectively, during FY23. Nevertheless, the scale remains modest, it limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Further, the firm has achieved total operating income of ~Rs.9.52 crore in April 2024; based on provisional results) and is expected to achieve a turnover of ~Rs.110.00 crore for FY25 on the back of expected recovery of demand from the exports market.

Geographic and customer concentration risk: BDC exported ~62% in FY24 (PY: ~59%) of its product in overseas countries to different retail outlets however, there is geographic concentration of more than 90% to USA based customers. Due to a high geographic concentration, the firm is also exposed to unfavourable changes in the government policy of that country and the fortunes of the firm, therefore, will continue to be linked to overall market demand in this country. Further, majority of sales are

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

driven by few customers with top five customers' accounts for nearly 35% of sales in FY24. This exposes the firm towards customer concentration risk. Any change in procurement policy of this customers may adversely impact the business of the firm. This also exposes the firm's revenue growth and profitability to its customer's future growth plans. However, the firm's business risk profile continues to be supported by healthy association developed with its customers over the years; thus, the customer concentration risk has been mitigated to a large extent.

Elongated operating cycle: The operations of the firm stood elongated as evident from operating cycle of 191 days for FY24 as against 148 days for FY23 owing to high inventory holding period. The import procurement (~22% out of the total purchases in FY24) of raw material in bulk quantity, in the anticipation of execution of high value orders in the last quarter of FY23 since, high lead time is required for importing the same. However, it got impacted due to lower demand from the European market and the same led to excess inventory holding in last quarter of FY23. Further, the firm is required to maintain adequate inventory in the form of raw material and finished goods for smooth execution of its production process and to meet the immediate demand of its customers since it takes an average time of around 3-4 months for manufacturing a handmade carpet and firm is required to maintain adequate inventory at each processing stage for smooth running of its production processes like weaving, dyeing, printing, embroidery, finishing and packaging. All these collectively results in high average inventory holding period. Being in highly competitive nature of industry and dealing with foreign players, the firm has low bargaining power wherein it has to offer liberal credit period of around 3-4 months to its foreign customers resulting in an average collection period of around 99 days for FY24. However, the firm receives payable period of around of around 30-45 days from its suppliers. The average utilization of the working capital limits remained ~90%-95% utilized for the last 12-months period ended April, 2024.

Constitution of the entity being a partnership firm: BDC's constitution being 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 partner. As on March 31, 2024, there is withdrawal of capital by the partners to the tune of Rs.3.30 crore. 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 fluctuation risk: The business operations of BDC involve both exports and imports resulting in sales realization and cash outflow in foreign currency. BDC exports its product in overseas market and export contribution to total sales stood around 62% for FY24 (PY: 59%). BDC's import procurement to raw material cost stood around 22% for FY24, thereby exposing BDC to volatility in foreign exchange rates. Being an importer and exporter, the foreign currency risk is partially mitigated through a natural hedge, however, in the absence of any hedging policies adopted by the firm, BDC is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals. 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 quantity of imports), anti- dumping duties, international freight rates and port charges. The firm has booked profit of Rs.0.89 crore in FY24 as against Rs.1.63 crore in FY23 from foreign exchange fluctuations.

Fragmented and unorganized nature of carpet industry and increasing competition from China along with major slowdown in the European market: The Indian carpet industry is characterized by numerous small players and is concentrated in Northern part of India which contributes a significant portion of India's total carpet production. Furthermore, due to low entry barriers due to low technological inputs, less capital intensive and easy availability of standardized machinery for production makes the hand knotted/tufted carpet industry highly lucrative and thus competitive. BDC however faces stiff competition from cheaper carpet imports from China in the same product segment.

Further, the carpets industry in India has been impacted by global inflationary pressures and elevated interest rates, particularly in major export markets like the United States and Europe. These economic factors have reduced discretionary consumer spending, leading to a decline in exports. However, it is believed that exports have bottomed out and are expected to improve due to a low base, depleting retailer inventory levels, and an anticipated improvement in discretionary spending due to expected interest rate cuts. The recovery, however, is expected to be slow and unlikely to fully recover in 2024-25. The Russia-Ukraine war in early 2022 strained the global economy, leading to increased inflation and higher interest rates, which further impacted exports. Despite these challenges, demand conditions are expected to improve with easing macro-economic pressures and a significant reduction in inflation. The expected cut in interest rates is likely to positively impact carpet sales, particularly in the United States, leading to an increase in carpet exports from India to major export destinations.

Key strengths

Experienced partners coupled with long track record of operations: BDC is a family run business. Mr. Pankaj Baranwal, Mrs. Madhu Baranwal, Mr. Priyam Baranwal and Mr. Ayush Baranwal are the partners of the BDC and they collectively look after the overall operations of the firm. Mr. Pankaj Baranwal is a graduate by qualification and has an accumulated experience of more than three decades in carpets industry through his association with this entity and other family concerns "M/s Rupesh Kumar & Brothers". Mrs. Madhu Baranwal is also graduate and has experience of around three decades in carpets industry through her association with this entity and other family business. They are well supported by his both sons; Mr. Priyam Baranwal and Mr. Ayush Baranwal who holds experience of varied up-to one decade in carpets industry through their association with this entity. The partners have an adequate acumen about various aspects of business since, they have been operating in carpets industry for more than three decades through Rupesh Kumar & Brothers (established in 1989), which aid in establishing a long-term relationship with both suppliers and customers and is likely to benefit further in the long run.

Favourable location of operations: The manufacturing facility of the firm is situated in Bhadohi, Uttar Pradesh which is a well-established manufacturing hub for carpet handloom industry. BDC derives the comfort from its strategic location in terms of easy accessibility to carpet weavers. Additionally, various raw materials required in manufacturing of carpets are also readily available and lower lead time requirement of purchase of raw materials owing to established suppliers' presence in the same vicinity of the firm.

Moderate profitability margins: The profitability margins of the firm stood moderate during last three financial years (FY22-FY24); since the firm is mainly manufacturing handmade carpets which fetch comparatively higher margins as compared to machine made carpets. Further, the firm also reaps benefits of its established image in the regional market which in turn gives a competitive edge to the firm in terms of margins as compared to other players. Further, the PBILDT margin of the firm improved and stood at 12.76% in FY24 (prov.) as against 12.21% in FY23 owing to higher sales realization during the year coupled with proportionate decline in the overhead expenses such as manufacturing cost as compared to its scale of operations. However, PAT margin has declined and stood at 5.77% in FY24 (prov.) as against 5.96% in FY24 owing to increase in depreciation cost due to partial capitalization of the capex undertaken. Going forward, with the recovery of demand prospects from the export market, aided by higher capacity utilization due to commercialization of the capex undertaken coupled with rise in the prices of final product, the PBILDT margin is expected to slightly improve in the coming year.

Moderate capital structure and debt coverage indicators: The capital structure of the company stood moderate as on the past three balance sheet dates ending March 31, '22-'24 on account of limited debt levels against the modest partner's net worth base. The overall gearing ratio stood at 1.13x as on March 31, 2024 showing improvement from 1.18x as on March 31, 2023 primarily on account of prepayment of loans coupled with accretion of profits to partner's net worth base. Further, the capital structure is expected to remain moderate as envisage in the near to medium term due to limited debt levels.

On account of moderate profitability margins, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA continue to remain moderate at 6.54x and 5.09x respectively, in FY24 (prov.) as against 6.27x and 4.35x respectively in FY23. The improvement in the interest coverage ratio is on the back of decline in interest cost owing to lower utilization of its working capital borrowings during the year. The deterioration in total debt to GCA ratio is on account of decline in its scale of operations consequently, leading to lower gross cash accruals.

Liquidity: Adequate

The liquidity position of the firm remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The firm has reported net cash accruals (NCA) to the extent of Rs.7.61 crore during FY24 and is expected to generate envisage NCA of ~Rs.7.80 crore for FY25 against repayment obligations of ~Rs.1.35 crore in same year. However, the average utilization of working capital limits remained almost ~90%-95% for the past 12 month's period ending April, 2024. The liquidity buffer available in the form of adequate cash accruals provides additional cushion to liquidity position of the firm and has enabled the firm to make prepayment of one of its term loans. Further, the firm has free cash & bank balances which stood at Rs.2.66 crore as on March 31, 2024.

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Financial Ratios – Non financial Sector](#)
[Cotton Textile](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Bhadohi (Uttar Pradesh) based, Bhadohi Carpets (BDC) was established in November, 2011 as a partnership firm. The firm is currently being managed by Mr. Pankaj Baranwal, Mrs. Madhu Baranwal, Mr. Priyam Baranwal and Mr. Ayush Baranwal sharing profits and losses in the ratio of 30%, 30%, 25% and 25% respectively. The firm is engaged in the manufacturing and export of wide variety of handmade carpets & druggets. It has its own in-house handlooms for manufacturing the same and has weaving centers located in Jharkhand, West Bengal and Uttar Pradesh. The firm has an installed capacity to manufacture 2,50,000 square meters of carpets and druggets per annum as on March 31, 2024. Besides this, the firm has 3 showrooms based out in Bhadohi and Greater Noida. The major raw materials required are raw wool, woollen yarn, cotton yarn, polyester yarn, silk yarn, staple yarn, viscose, dyes & chemicals, etc. BDC exported ~62% in FY24 of its product in overseas markets such as U.S.A., U.K., Australia, Spain, Belgium, Chile, South Africa, Lebanon, Dubai, France, Germany, Russia, Italy, Canada, New Zealand, United Kingdom, Brazil, Maldives, Egypt, etc. directly and through network of dealers and agents and rest of sales are done domestically. The firm has two associate concerns namely; "M/s Rug Resources" (established in 2013) engaged in the trading of handmade carpets and druggets and "M/s Bhadohi Floor Coverings" (established in 2015) engaged in the trading of handmade carpets and druggets.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	1MFY25 (Prov.)*
Total operating income	119.26	95.90	9.52
PBILDT	14.56	12.23	NA
PAT	7.10	5.53	NA
Overall gearing (times)	1.18	1.13	NA
Interest coverage (times)	6.27	6.54	NA

A: Audited; Prov.: Provisional; NA: Not Available; Note: 'the above results are latest financial results available'

*refers to the period from April 1, 2024 to April 30, 2024.

Status of non-cooperation with previous CRA: CRISIL has continued the ratings assigned to the bank facilities of Bhadohi Carpets to the "Issuer Not-Cooperating" category vide its press release dated May 24, 2024 on account of its inability to carryout review in the absence of requisite information from the firm.

ICRA has continued the ratings assigned to the bank facilities of Bhadohi Carpets to the "Issuer Not-Cooperating" category vide its press release dated August 22, 2023 on account of its inability to carryout review in the absence of requisite information from the firm.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST		-	-	-	19.00	CARE BB+; Stable / CARE A4+
Fund-based-Short Term		-	-	-	14.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument / Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-LT/ST	LT/ST	19.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (02-Jun-23)	1)CARE BB; Stable / CARE A4 (09-May-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (22-Mar-22) 2)CARE BB; Stable / CARE A4 (24-Jun-21)
2	Fund-based-Short Term	ST	14.00	CARE A4+	-	1)CARE A4+ (02-Jun-23)	1)CARE A4 (09-May-22)	1)CARE A4; ISSUER NOT COOPERATING* (22-Mar-22) 2)CARE A4 (24-Jun-21)

*Issuer did not cooperate; based on best available information.

ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instrument/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-LT/ST	Simple
2	Fund-based-Short Term	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Ankur Sachdeva Senior Director CARE Ratings Limited Phone: +91-22-6754 3444 E-mail: ankur.sachdeva@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Sajan Goyal Director CARE Ratings Limited Phone: +91- 120-445 2017 E-mail: sajan.goyal@careedge.in</p> <p>Name: Sachin Mathur Associate Director CARE Ratings Limited Phone: +91- 120-445 2054 E-mail: sachin.mathur@careedge.in</p> <p>Name: Aashu Singh Analyst CARE Ratings Limited E-mail: aashu.singh@careedge.in</p>
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About us:

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