

## Cottage Industries Exposition Limited (Revised)

October 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	53.00	CARE B+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the bank facilities of Cottage Industries Exposition Limited (CIEL) is constrained on account of modest scale of operations & profitability, weak debt service coverage indicators and elongated operating cycle. The rating is further constrained by fragmented and unorganized nature of carpet industry with increasing competition from China and inherent risks associated with export business. However, rating derives strength from experienced promoters coupled with long track record of operations and widespread distribution network.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in scale of operations above Rs.60.00 crore & Profit Before Interest, less Depreciation and Tax (PBILDT) margin above 7.50% on sustained basis.
- Improvement in operating cycle leading to decrease in Gross current asset days to below 400 days.

#### Negative factors

- Deterioration in scale of operations as marked by total operating income of below Rs 30.00 crore & PBILDT margins below 4.50%.
- Deterioration in capital structure as marked by overall gearing above 2.00x.

#### Analytical approach: Consolidated

CARE has adopted consolidated approach. The list of entities consolidated are as mentioned in Annexure-6.

Consolidated approach is adopted since because all these entities, collectively referred to as the Cottage group, have business and financial linkages, and are under a common management.

#### Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' expectation that the company is likely to maintain the existing operating and financial risk profile over the medium term.

### Detailed description of key rating drivers:

#### Key Weaknesses

##### Modest scale of operations & profitability with weak debt service coverage indicators:

CIEL's scale of operations stood modest as evident from total operating income (TOI) of Rs.40.30 crore and gross cash accruals (GCA) of Rs. 2.95 crore, during FY24 (refers to the period April 01 to March 31) with low year on year (Y-o-Y) growth since the operations of the company impacted during Covid-19 time. The modest scale deprives it of the scale benefits. Profitability margins of the company also stood low with PBILDT & Profit after tax (PAT) margins of 6.19% & 17.66%, respectively during FY24. This was due to certain fixed operational expenses that the limited scale of operations could not adequately absorb.

Further, the company has achieved total operating income of Rs.15.00 crore during 5MFY25 (refers to the period April 01 to August 31).

##### Weak debt service coverage indicators:

Owing to high debt levels and low profitability, the debt coverage indicators of the company remained weak, as marked by interest coverage ratio of 0.41x in FY24. However, company was able to meet in interest and debt obligations from non-operating income of around Rs. 8.00 crores which majorly consists of rental income and forfeiture of security deposit. Further, the total debt to GCA (TD/GCA) stood at 4.46x as on March 31, 2024.

##### Fragmented and unorganized nature of carpet industry with increasing competition from China:

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 technological inputs and low entry barriers, less capital intensive and easy availability of standardized machinery for production makes the hand knotted/tufted

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

carpet industry highly lucrative and thus competitive. CIEL however faces stiff competition from cheaper carpet imports from China in the same product segment.

#### **Inherent risks associated with exports:**

CIEL's operations are primarily focused on the exports which contributed around 57% of the total sales in FY24. However, the raw material is mainly procured from domestic markets. Any change in government policies, either domestic or international is likely to affect the company'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.

#### **Elongated operating cycle**

The operating cycle of the company stood elongated at 760 days for FY24 primarily on account of high inventory period. The inventory holding period of the company stood elongated at 905 days in FY24 on account of diversified product portfolio which enables the company to maintain inventory at various stages, i.e., fabric and garments of all varieties, handicraft products and hand-woven carpets. Further, high inventory leads to risk of obsolescence due to rapid change in fashion trends which in turn leads to higher discounting adversely impacting the profitability. The working capital requirement is partially met through easy credit period available of 4-6 months from its suppliers. The operations of the company remain working capital intensive as the utilization of its working capital limit stood more than 80% for past twelve months ended September 2024. Furthermore, the company's ability to manage its inventory levels while sustaining growth in scale of operations will remain a key rating sensitivity.

#### **Key strengths:**

##### **Experienced promoters coupled with long track record of operations:**

CIEL was incorporated in the year 1978 by Mr. Amir Mir & Ms. Tabasum Mir. Over the years of track record of operations, company has developed strong association with the suppliers as well as customers which has resulted in garnering repetitive orders.

##### **Widespread distribution network:**

CIEL sells its products through 32 outlets out of which 20 are self-owned, 12 stores are rented. The stores are spread at various locations in Goa, Chennai, Delhi, Punjab, Haryana, Jammu & Kashmir, Maharashtra, Pune and Rajasthan.

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

The liquidity position of the company remained stretched as marked by more than 80% utilisation of working capital limits for the past 12 month's period ending September 2024. Further, the Quick ratio and Current ratio stood low at 0.12x and 1.50x respectively as on March 31, 2024, as compared to 0.10x and 1.36x respectively in the previous fiscal year. The company has projected modest cash accruals of around Rs 8.00 crores during FY25 as against scheduled loan repayment obligation of Rs 1.17 crores. The company has free cash & bank balances which stood at Rs. 2.02 crore as on March 31, 2024.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

#### **Applicable criteria**

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Retail](#)

#### **About the company and industry**

##### **Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Cottage Industries Exposition Limited (CIE) was incorporated in 1956 in July 1978. CIE Manages an extensive chain of up-market retail showrooms in India. They have retail in Home Décor, Kashmiri wool products, Decorative articles, Art & Sculpture, Furnishings, Silks & brocades, Furniture, Precious Jewellery, Fashion, Leather Products, Costume jewellery, Watches. They export

silk carpets and handicraft items. The company is presently operating 32 stores in all over India in Goa,- Chennai, Delhi, Mumbai etc . CIE also deals in branded products like Nike, Reebok, Lacoste, Benetton, Adidas to cater to the needs of international buyers.

Brief Financials - Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	5MFY25 (UA)
Total operating income	30.48	40.30	15.00
PBILDT	-4.10	2.49	NA
PAT	4.99	7.12	NA
Overall gearing (times)	0.42	0.36	NA
Interest coverage (times)	-0.77	0.41	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	25.00	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	-	2028	28.00	CARE B+; Stable

#### Annexure-2: Rating history for 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-Cash Credit	LT	25.00	CARE B+; Stable	-	-	-	-
2	Fund-based - LT-Term Loan	LT	28.00	CARE B+; Stable	-	-	-	-

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not Applicable

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

#### Annexure-5: Lender details

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

**Annexure-6: List of entities consolidated**

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Cottage Industries Exposition (Mauritius) Limited	Full (100%)	Wholly Owned Subsidiary
2	Cottage Industries Exposition Overseas Services Trading Limited	Full (100%)	
3	SPA Legends Resorts Private Limited	Full (100%)	
4	Legends Resorts Private Limited	Full (100%)	
5	Allure Hotels and Resorts Private Limited	Proportionate (49.98%)	Subsidiary

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

**Contact us**

Media Contact	Analytical Contacts
<p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a></p>	<p>Puneet Kansal Director <b>CARE Ratings Limited</b> Phone: 120-4452000 E-mail: <a href="mailto:puneet.kansal@careedge.in">puneet.kansal@careedge.in</a></p> <p>Rajan Sukhija Assistant Director <b>CARE Ratings Limited</b> Phone: 91-120-4452000 E-mail: <a href="mailto:Rajan.Sukhija@careedge.in">Rajan.Sukhija@careedge.in</a></p> <p>Mayank Gupta Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Mayank.gupta@careedge.in">Mayank.gupta@careedge.in</a></p>

**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

**Disclaimer:**

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information, please visit [www.careedge.in](http://www.careedge.in)**