

## Eastern Heritage

October 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	4.09	CARE BB; Stable; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	30.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE BB; Stable / CARE A4+ and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	3.00	CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE A4+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

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

### Rationale and key rating drivers

Eastern Heritage (EH) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Limited's (CARE Ratings') rating on EH's bank facilities will now be denoted as **"CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING\*"**.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The reaffirmation of long-term rating and one-notch downgrade in short-term rating assigned to bank facilities of EH factors in the stretched liquidity position, leveraged capital structure and weak debt coverage indicators. Further, the ratings continue to remain constrained by the modest scale of operations, margins susceptible to raw material price volatility and foreign exchange (forex) fluctuation, highly fragmented and competitive industry and constitution of the entity being a partnership firm. However, the ratings derive comfort from experience of its partners in the textile industry with firm's long track record of operations and established relationships with global customer base, and moderate operating cycle.

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects CARE Ratings' opinion that EH shall continue to benefit from its experienced partners.

### Detailed description of the key rating drivers

At the time of last rating on November 28, 2023, following were the rating strengths and weaknesses (updated based on limited information available from the company).

### Key Rating Weaknesses

#### Modest scale of operations with sustained profitability margins

In FY24 (refers to the period from April 01, 2023, to March 31, 2024), EH reported a healthy year-on-year growth of 20.76% in its scale of operations with total operating income (TOI) increasing to Rs.185.24 crore (PY: Rs.153.39 crore), largely backed by repeat orders from existing customers. Nevertheless, the scale remains modest, and it limits the financial flexibility of the firm in times of stress and deprives it of scale benefits. Further, in FY24, EH's profitability margins remain in line with previous year as marked by profit before interest, lease rentals, depreciation, and taxation (PBILDT) and profit after tax (PAT) margin of 5.66% (PY: 5.58%) and 0.58% (PY: 0.44%) respectively.

#### Leveraged capital structure and weak debt coverage indicators

EH's capital structure continues to remain leveraged as marked by overall gearing of 2.34x as on March 31, 2024 (PY: 2.89x), on account of the high reliance on external borrowings as against its low tangible networth base. On account of high debt levels and low profitability margins, the debt coverage indicators of the firm also remained weak in FY24 as marked by interest coverage and total debt to GCA of 1.66x (PY: 1.74x) and 14.26x (PY: 12.27x) respectively.

#### Susceptibility of margins to volatility in raw material prices and forex rates

The prices of fabric, the key raw material, are dependent largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand supply situation, etc. During the past years, the market has seen volatility in cotton yarn production and prices. Thus, the ability of the firm to absorb the variations in the raw

<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.

material prices and pass it to the customers is a key for maintaining the profitability level. Moreover, the firm export its products in overseas markets with export contribution to TOI stood at around 93% in FY24 (PY: 95%). The raw materials are procured primarily from domestic market though 10-20% of the total raw materials requirement are imported. With significant chunk of initial outlay in domestic currency and inflows in foreign currency, the firm is exposed to volatility in forex rates. However, EH being both importer and exporter, the forex fluctuation risk is partly mitigated through natural hedge. Further, the firm employs hedging mechanisms like future contracts where the firm hedges around 50% of its forex exposure. However, the rest of the forex exposure remains unhedged which exposes the profitability of the firm to fluctuation in the forex rates.

### **Presence in fragmented and competitive textile industry**

Textile industry in India is highly fragmented and dominated by a large number of medium and small-scale unorganized players, leading to a stiff competition in the industry, which limits the bargaining power of the operating entities and exerts pressure on their margins. Further, textile industry is cyclical in nature and closely follows the macroeconomic business cycle. Moreover, the textile industry witnesses regulatory risks such as change in domestic and international government policies related to subsidies or imports/ exports tariffs, which also affects the industry players across the value chain.

### **Constitution of the entity being a partnership firm**

EH'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 the firm being dissolved upon death/ retirement/ insolvency of the partner. Moreover, the partnership firms have restricted access to external borrowing which limits their growth opportunities to some extent.

## **Key Rating Strengths**

### **Experienced partners with long track record of operations**

EH is currently managed by Ms. Meenakshi Sarna and her brother, Mr. Rakesh Saigal. They both have gained vast experience in the textile industry through their association with this firm and engagement with other entities having similar businesses. The partners have adequate acumen about various aspects of the business which is likely to benefit the firm in the long run. They are in turn well supported by a team of experienced professionals managing the firm's day-to-day operations. Further, EH has a considerable track record in the business, which has resulted in the established relationships with its suppliers and customers.

### **Established relationships with global customer base**

Owing to long track record in business, EH has an established base of customers and suppliers with whom it has been dealing for more than a decade, enabling it to get repeat orders from customers. However, at present, the customer base of the firm is concentrated including in terms of geographical location.

### **Moderate operating cycle**

EH's operating cycle continues to remain moderate at 87 days in FY24 (PY: 73 days), due to the moderate collection period and inventory holding period. The firm needs to stock an adequate quantity of raw materials owing to manufacturing of wide range of apparels, leading to average inventory holding period of 82 days in FY24 (PY: 82 days). Further, being in a highly competitive industry, the collection period of the firm remains moderate at around 2-3 months leading to an average collection period of 73 days in FY24 (PY: 68 days). Moreover, EH receives supplier's credit of around 2-3 months resulting in average creditors' period of 68 days in FY24 (PY: 77 days).

### **Liquidity: Stretched**

EH's liquidity position continues to remain stretched as reflected by nearly full utilization of working capital limits in the trailing twelve months ended September 2024.

## **Applicable criteria**

[Policy in respect of non-cooperation by issuers](#)

[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	Garments & Apparels

Established in 2012, EH is a partnership firm based in Noida (Uttar Pradesh). The firm is engaged in manufacturing and export of readymade garments for women which includes embroidered, embellished and non-embellished designer wears and regular wears, at its manufacturing facilities located at Noida (Uttar Pradesh). EH is currently managed by Ms. Meenakshi Sarna and her brother, Mr. Rakesh Saigal as partners.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	153.39	185.24
PBILDT	8.55	10.48
PAT	0.68	1.07
Overall gearing (times)	2.89	2.34
Interest coverage (times)	1.74	1.66

A: Audited; UA: Unaudited; 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	August 2025	3.01	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	January 2026	1.08	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST - Working Capital Limits		-	-	-	30.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - ST - Forward Contract		-	-	-	3.00	CARE A4; ISSUER NOT COOPERATING*

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

#### 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/ ST-Working Capital Limits	LT/ST	30.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable / CARE A4+ (28-Nov-23)	1)CARE BB; Stable / CARE A4+ (06-Oct-22)	1)CARE BB-; Stable / CARE A4 (03-Mar-22)

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
						2)CARE BB; Stable / CARE A4+ (03-Oct-23)		
2	Non-fund-based - ST-Forward Contract	ST	3.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (28-Nov-23) 2)CARE A4+ (03-Oct-23)	1)CARE A4+ (06-Oct-22)	1)CARE A4 (03-Mar-22)
3	Fund-based - LT-Term Loan	LT	3.01	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (28-Nov-23) 2)CARE BB; Stable (03-Oct-23)	1)CARE BB; Stable (06-Oct-22)	1)CARE BB-; Stable (03-Mar-22)
4	Fund-based - LT-Term Loan	LT	1.08	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (28-Nov-23) 2)CARE BB; Stable (03-Oct-23)	1)CARE BB; Stable (06-Oct-22)	1)CARE BB-; Stable (03-Mar-22)

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

LT: Long term; ST: Short term; LT/ST: Long term/Short 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-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - ST-Forward Contract	Simple

### Annexure-5: Lender details

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

**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.

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### About us:

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### Disclaimer:

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