

## Patodia Exports

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Short Term Bank Facilities	28.00	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

CARE Ratings Ltd. has been seeking information from Patodia Exports (PE) to monitor the rating(s) vide e-mail communications/letters dated October 18, 2024; December 06, 2024 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. Further, Patodia Exports has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Patodia Exports bank facilities will now be denoted as **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 rating assigned to the bank facilities of Patodia Exports has been revised on account of non-availability of requisite information due to non-cooperation by PE. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk.

**Analytical approach:** Standalone

### Detailed description of key rating drivers:

At the time of last rating on December 11, 2023 the following were the rating strengths and weaknesses.

#### Key weaknesses

##### Modest albeit growing scale of operations

PE's scale of operations stood modest albeit growing as evident from total operating income (TOI) of Rs.87.91 crore and gross cash accruals (GCA) of Rs.8.99 crore respectively, during FY23 (FY refers to the period April 1 to March 31) as against Rs.73.14 crore and Rs.8.01 crore respectively, during FY22. The modest scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits. Though, the risk is partially mitigated by the fact that the PE's scale of operations has been on a growing trend registering a CAGR of about 38.85% during FY21-23. The increase in TOI is primarily on account of higher intake from its existing customers owing to healthy demand for the products. Further, the firm has achieved total operating income of Rs.42.08 crore and gross cash accruals of Rs.2.51 crores during H1FY24 (refers to the period from April 1, 2023 to September 30, 2023; based on unaudited results) and is expected to achieve a turnover of ~Rs.91.80 crore for FY24.

##### Leveraged capital structure

The capital structure of the firm stood leveraged as on the past three balance sheet dates ending March 31, '21-'23 on account of higher reliance on external borrowings to fund the incremental working capital requirements of business against the partner's capital base. The overall gearing ratio stood at 2.89x as on March 31, 2023 showing improvement from 3.27x as on March 31, 2022 mainly on account of infusion of funds by the partner's in the net worth base. As on September 30, 2023, it stood at 3.33x. Further, the capital structure is expected to remain leveraged as envisage in the near to medium term due to high debt levels.

##### Elongated operating cycle

The operations of the firm continue to remain elongated as evident from operating cycle of 112 days for FY23 (PY: 107 days) with a majority of funds blocked in inventory and a moderate portion in debtors. 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 average time of around 2-3 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. Entailing these resulted into an average inventory holding period of 93

<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.

days for FY23. 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 2-3 months to its foreign customers resulting in an average collection period of around 49 days for FY23. However, the firm receives payable period of around 1-2 months from its suppliers. The average utilization of the working capital limits remained ~80%-85% utilized for the last 12-months period ended October, 2023.

**Foreign exchange fluctuation risk**

PE's operations are primarily focused on the export market and its export contribution stood around 70% for FY23 (PY: 72%). However, the raw material is mainly 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 which the firm does not hedge. Thus, PE is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals and profitability margins. The risk is more evident now that the rupee has registered considerable volatility and could leave the company carrying costly inventory in case of sudden appreciation. 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. During FY23, firm has booked profit of Rs.0.88 crore from foreign exchange fluctuations.

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

PE'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. 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.

**Fragmented and unorganized nature of carpet industry and 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 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. PE however faces stiff competition from cheaper carpet imports from China in the same product segment.

**Key strengths****Experienced partners coupled with long track record of operations**

PE is a family run business and was established in the year 1991. Mr. Ravi Patodia, Mr. Apurva Patodia and Mr. Pranay Patodia are the partners of the firm and they collectively look after the overall operations of the firm. Mr. Ravi Patodia is a graduate by qualification and has an accumulated experience of around five decades in carpets industry through his association with this entity and other family run business. He is well supported by his both sons; Mr. Apurva Patodia and Mr. Pranay Patodia who holds an experience varied up-to two decades in carpets industry through his association with this entity. The partners have an adequate acumen about various aspects of business which is likely to benefit the firm in the long run. Further, they are also assisted by a team of well-qualified managerial personnel and technical team having requisite technical knowledge and skills in their respective fields. The firm is having a considerable track record in this business which has resulted in long term relationships with both suppliers and customers.

**Favourable location of operations with diversified customer base**

The manufacturing facility of the firm is situated in Bhadohi, Uttar Pradesh which is a well-established manufacturing hub for carpet handloom industry. PE 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 readily available and lower lead time requirement of purchase of raw materials owing to established suppliers' presence in the same location.

Further, PE has been operational for more than three decades in carpets manufacturing business and has been able to establish healthy relationship with its customers. In light of the established relationship, the firm managed to get repeat orders from its customers. The top ten customer concentration risk stood moderate ~27%, with no individual customer contributing more than 10% of total sales in FY23. Aided by its diversified customer base, the firm does not have reliance on any single customer pertaining to its revenue source, which in turn stabilize their financial position, and thereby reduces the risk of financial vulnerability arises due to concentration in from any particular customer in near future.

## Comfortable profitability margins and moderate debt coverage indicators

The profitability margins of the firm stood comfortable during last three financial years (FY21-FY23); since the firm is mainly manufacturing handmade carpets which fetch comparatively higher margins. Further, the firm also reaps benefits of its established image in the regional market since, the firm is dealing with only exclusive/premium carpets which in turn gives a competitive edge to the firm in terms of margins as compared to other players. However, the PBILDT margin of the firm declined and stood at 15.78% in FY23 as against 16.23% in FY22 owing to high competition in the market, wherein the firm has to trade off its margins in order to scale up its operations. Further, in line with PBILDT margin, PAT margin also declined and stood at 9.11% in FY23. During H1FY24, PBILDT and PAT margin stood at 18.18% and 4.59% respectively. Going forward, the stabilization in the raw material prices coupled with rise in the prices of final product, PBILDT margins are expected to remain in the same range in the coming year.

Further, on account of high debt levels, the debt coverage indicators of the firm as marked by interest coverage ratio and total debt to GCA stood moderate at 6.58x and 4.58x respectively, in FY23 as against 6.26x and 3.79x respectively in FY22. The deterioration in interest coverage ratio is on account of increase in finance cost owing to enhancement of its working capital borrowings leading to increase in total debt levels. During H1FY24, the interest coverage ratio and total debt to GCA stood at 6.02x and 17.66x respectively and is expected to remain at similar levels over the medium term.

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

## Applicable criteria

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

[Definition of Default](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Cotton Textile](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

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

Bhadohi (Uttar Pradesh) based, Patodia Exports (PE) was established in the year 1991 as a partnership firm. The firm is currently being managed by Mr. Ravi Patodia, Mr. Apurva Patodia and Mr. Pranay Patodia sharing profits and losses in the ratio of 33.34%, 33.33% and 33.33% respectively. The firm is engaged in the manufacturing and export of wide variety of handmade carpets & druggets under its own brand name "Hands". It has its own in-house handlooms for manufacturing the same and has 50 weaving centers (six are own and rest are outsourced) located in Uttar Pradesh. The firm is also having an installed capacity to manufacture 25,000 square meters of carpets and druggets per month as on March 31, 2023. Besides this, the firm has 3 showrooms based out in Delhi, Gurugram and Mumbai. From FY24, the firm has also started manufacturing and export of pillow covers. The firm export ~70% of its product in overseas markets such as U.S.A., United Kingdom, Belgium, Singapore, China, Dubai, Australia, France, Germany, Italy, Canada, Brazil, etc. directly and through network of dealers and agents and rest 30% of sales are done domestically.

The firm has an associate concern namely, "Peasons Private Limited" (incorporated in 1981) engaged in providing 100% dyeing services on job work basis to Patodia Exports only.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	87.91	NA	NA
PBILDT	13.87	NA	NA
PAT	8.01	NA	NA
Overall gearing (times)	2.89	NA	NA
Interest coverage (times)	6.58	NA	NA

H1FY25: refers to the period April 01, 2024 to September 30, 2024

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - ST-PC/Bill Discounting		-	-	-	25.00	CARE A4; ISSUER NOT COOPERATING*
Fund-based - ST- Standby Line of Credit		-	-	-	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 - ST-PC/Bill Discounting	ST	25.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (11-Dec-23)	-	-
2	Fund-based - ST- Standby Line of Credit	ST	3.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4+ (11-Dec-23)	-	-

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

ST: 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 - ST-PC/Bill Discounting	Simple
2	Fund-based - ST-Standby Line of Credit	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 for clarifications.

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### About us:

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### Disclaimer:

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