

Champo Carpets

March 2, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Short-term Bank Facilities	30.00	CARE A4 (A Four)	Reaffirmed
Total	30.00 (Rupees Thirty crore only)		

Details of facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Champo Carpets (CC) continue to remain constrained by its modest and fluctuating scale of operations with high working capital requirement as reflected by almost 100% utilization of working capital limits along with regular adhoc limits, foreign exchange fluctuation risk, elongated operating cycle and it's presence in a highly competitive industry. The ratings, however, continue to take comfort from experience management, moderate profitability margin and diverse customer base.

Detailed description of the key rating drivers

Positive Factors

- Increase in scale of operations as marked by total operating income of above Rs. 100.00 crore on sustained basis. .
- Improvement in operating cycle marked by less than 80 days on sustained basis.

Negative Factors

- Deterioration in the coverage indicators as marked by interest coverage ratio below 2.00x and total debt to GCA above 7.00x.
- Deterioration in the capital structure as marked by overall gearing ratio of above 2.00x.

Key Rating Weakness

Modest and fluctuating scale of operations

Champo Carpets scale of operations remained modest as marked by total operating income and gross cash accruals of Rs.65.07 crore and Rs.6.97crore respectively, during FY19 (refers to the period April 1 to March 31) as against RS. 44.74 crores and Rs. 4.65 crores in FY18. The modest scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits.

For the period FY17-FY19, CC's total operating declined from Rs.70.61 crore in FY17 to Rs.65.07 crore in FY19. Further, the firm has achieved TOI of Rs.52.23 crore during 10MFY20 (refers to the period April 1 to January 31; based on provisional results).

Working capital intensive nature of operations

The operations of the firm are working capital intensive in nature as marked by operating cycle of 163 days for FY19. The operating cycle stood at 172 days in FY18 and the improvement was on account of a reduction in collection and payable days on account of a revision in the term between the respective parties. 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. Entailing, all results in average inventory holding period of around 152 days in FY19. Being in highly competitive nature of industry and dealing with foreign players, the firm has low bargaining power wherein it allow credit around 2 months resulting into average collection period of 52 days in FY19. However, the firm receives credit period of around two months from its suppliers resulting in average creditor's period of 41 days in FY19. The working capital limits stood almost fully utilized for the past 12 months ended January 31, 2020.

Constitution of the entity being partnership firm

CC'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.

Foreign exchange fluctuation risk

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The business operations of CC involve only exports. CC exports its product in overseas markets such as USA, Spain, Belgium, Turkey, Brazil, Romania, London, UK, etc and export contribution to total sales stood 100% for FY19. Despite being the initial cost of procurement in local currency and sales realization in foreign currency and the firm is not involved in any kind of a hedging strategy hence exposing it to foreign currency fluctuation risk.

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 and less capital intensive makes the hand knotted/tufted carpet industry highly lucrative and thus competitive. CC however faces stiff competition from cheaper carpet imports from China in the same product segment.

Key rating Strength

Experienced partners coupled with long track record of operations

Champoo carpets is a family run business, Shri Sanjay Mehrotra, Smt. Deepali Mehrotra, Shri Mehul Mehrotra and Shri Rohil Mehrotra are the partners of the firm and they collectively look after the overall operations of the firm. Shri Sanjay Mehrotra is graduate and has accumulated experience of more than four decades in carpets industry through his association with the firm. Smt. Deepali Mehrotra is also a graduate and has experience of more than two decades in carpets industry through her association with the firm. He is ably supported by Shri Mehul Mehrotra and Shri Rohil Mehrotra who are graduates and hold more than half decade of experience in carpets industry through their association with the firm. Further, long presence in industry has ensured in establishing a healthy relationship with both customers and suppliers.

Location advantage with diversified customer base

Bhadohi 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.

Moreover, the firm has diversified customer base which, in turn, improves the bargaining capacity of the firm and enhances the image of the firm in the market and lends supports to the quality of its products/services.

Moderate profitability margins, capital structure and debt coverage indicators

The profitability margins of the firm remained moderate for the past three financial years i.e. (FY17-FY19) since the firm is mainly manufacturing handmade carpets which fetch comparatively higher margins. The PBILDT margin of the firm improved and stood at 17.39% in FY18 as against 17.07% in FY18 on account of higher margins goods that were sold in FY19. Similarly, PAT margin of the firm stood at 6.38% during FY19 as against 5.93x in FY18. This was in line with the PBILDT margins.

The firm has debt mainly in the form of Vehicle loans of Rs. 1.67 crores, working capital limits of Rs. 28.54 crores and unsecured loans of Rs. 1.89 crores. The capital structure of the firm stood comfortable as on the past three balance sheet dates as marked by debt to equity and overall gearing which stood at 0.05x and 1.04x in FY19 as against 0.08x and 1.56x in FY18. The improvement was on account of increased net worth which resulted from funds infused in the business through the partners.

Further, owing to moderate profitability margins, the debt service coverage indicators of the firm as marked by interest coverage and total debt to GCA stood moderate at 5.40x and 4.60x during FY19 as against 4.84x and 6.14x in FY18. The improvement was on account of higher profits made.

Liquidity: Stretched – The liquidity position of the firm stand stretched characterized almost 100% utilized working capital limits for the past 12 months ending January 2020 along with ADHOC limits which were availed in the month of October 2019. Also, liquidity ratios stood thin as marked by current and quick ratio of 1.13x and 0.51x respectively as on March 31, 2019. The unencumbered cash balance stood at 0.84 crores as on March 31, 2019.

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](#)

[CARE's methodology for manufacturing companies](#)

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

About the Company

Bhadohi, Uttar Pradesh based Champo Carpets (CC) was established in April, 1974 as a partnership firm and is currently managed by Shri Sanjay Mehrotra, Smt. Deepali Mehrotra, Shri Mehul Mehrotra and Shri Rohil Mehrotra, having profits/losses sharing ratio of 25% each. The firm is engaged in the manufacturing and export of handmade carpets & rugs. It has its own in-house handlooms for manufacturing the same and has weaving centers located in Harirampur and

Aurai Road Bhadohi. Besides this, the firm has 3 showrooms located in Noida (India), New York (USA) and Las Vegas (USA).

Brief Financials (Rs. crore)	31-03-2017	31-03-2018	31-03-2019
	A	A	A
Total operating income	70.61	44.74	65.07
PBILDT	11.91	7.64	11.31
PAT	5.88	2.65	4.15
Overall gearing (times)	1.34	1.56	1.04
Interest coverage (times)	7.96	4.84	5.40

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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-Packing Credit in Indian rupee	-	-	-	20.00	CARE A4
Fund-based - ST-Foreign Demand Bills Payable	-	-	-	10.00	CARE A4

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-Packing Credit in Indian rupee	ST	20.00	CARE A4	1)CARE A4 (09-May-19)	-	-	-
2.	Fund-based - ST-Foreign Demand Bills Payable	ST	10.00	CARE A4	1)CARE A4 (09-May-19)	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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