

## Champo Carpets

May 09, 2019

Rating Facility	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities	30.00	CARE A4 (A Four)	Assigned
<b>Total</b>	<b>30.00</b> <b>(Rupees Thirty crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Champo Carpets are constrained by its modest scale of operations with high working capital requirement, foreign exchange fluctuation risk, elongated operating and its presence in a highly competitive industry. The ratings, however, drive strength from experienced management, moderate profitability margin and diverse customer base.

Going forward, the ability of the firm to increase the scale of operations while improving its capital structure and effectively managing its working capital requirement shall be the key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **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.44.74 crore and Rs.4.65 crore respectively, during FY18 (refers to the period April 1 to March 31). The modest scale limits the firm's financial flexibility in times of stress and deprives it of scale benefits.

For the period FY16-FY18, CC's total operating declined from Rs.60.12 crore in FY16 to Rs.44.74 crore in FY18. Further, the firm has achieved TOI of Rs.51.08 crore during 10MFY18 (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 172 days at the end of FY18. 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 151 days at the end of FY18. Being in highly competitive nature of industry and dealing with foreign players, the firm has low bargaining power wherein it allow credit around 3 months resulting into average collection period of 82 days in FY18 same as above. However, the firm receives credit period of around two months from its suppliers resulting in average creditor's period of 68 days in FY18. The average utilization of the working capital limits remained 89% utilized for the last 12-months period ended January, 2019. Therefore going forward the efficient management of its working capital requirement would be the key rating sensitivity.

##### **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**

The business operations of CC involve only expts. CC exports its product in overseas markets such as USA, Spain, Belgium, Turkey, Brazil, Romania, London, UK, etc.. Due to this the CC is exposed to foreign exchange fluctuation. Also the firm doesn't use any hedging policies for its foreign currency exposure, thereby exposing its profitability 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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 Strengths

#### ***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 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, Uttar Pradesh 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 above you said they don't have bargaining capacity 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. (FY16-FY18) since the firm is mainly manufacturing handmade carpets which fetch comparatively higher margins. The PBILDT margin of the firm improved and stood at 17.07% in FY18 as against 16.86% in FY17 on account of increase in products sold with better profitability. Similarly, PAT margin of the firm stood at 5.93% during FY18.

The firm has debt mainly in the form of unsecured loan from related parties. The capital structure of the company stood moderate as on the past three balance sheet dates as marked by debt to equity and overall gearing which stood around 1.50x in last three financial year March 31<sup>st</sup> (FY16-18).

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 4.84x and 6.14x during FY18 though it deteriorated from FY17 on account of lower GCA in FY18.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-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).

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	70.61	44.74
PBILDT	11.91	7.64
PAT	5.88	2.65
Overall gearing (times)	1.34	1.56
Interest coverage (times)	7.96	4.84

A-Audited

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	-
2.	Fund-based - ST-Foreign Demand Bills Payable	ST	10.00	CARE A4	-	-	-	-

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