

## Obeetee Private Limited

November 01, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund Based	57.10	78.00	[ICRA]A+(Stable)/ [ICRA]A1; assigned/outstanding
Long-term/Short-term Based	Non-fund -	3.60	[ICRA]A+(Stable)/ [ICRA]A1; assigned
<b>Total</b>	<b>57.10</b>	<b>81.60</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]A+ (pronounced ICRA A plus) and the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 81.60-crore<sup>1</sup> (enhanced from Rs. 57.10 crore) bank facilities of Obeetee Private Limited (OPL)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

ICRA's ratings consider the operational and financial linkages between OPL and its wholly-owned subsidiaries and hence consider the consolidated profile of the Obeetee Group<sup>3</sup>.

ICRA's ratings takes into account the decline in the operating income (OI) and operating profits of the Group in FY2018, on account of appreciation of the rupee vis-à-vis the dollar in FY2018, affecting export revenues, along with lower orders from its key customer. This decline in revenues and its impact on operating profitability in FY2018 was in line with ICRA's expectations. Also, the Obeetee Group has added a new major customer in the US in FY2019, which is likely to aid export revenues. Furthermore, the rupee has depreciated by ~12% in CY2018 (January 2018 to September 2018) which has added to the competitive advantage of the Group. Furthermore, the Group has successfully enhanced its capacity for manufacturing non-woven carpets and commissioned a rotary printing line at its plant in Uttarakhand in March 2018. This will support the company's top line and help in achieving scale of operations in the non-woven carpet segment. The rating reaffirmation also takes into account the Obeetee Group's financial profile which is expected to remain comfortable, with gearing of 0.2 times as on March 31, 2018, and strong debt-protection indicators. ICRA also takes note of the comfortable liquidity profile of the Obeetee Group with consolidated cash and liquid investments of Rs. 87.3 crore as on March 31, 2018. The company's exports are supported by confirmed orders and generally backed by a letter of credit, which reduces its credit risk to some extent. ICRA also continues to favourably factor in the extensive experience of the Group in the hand-knotted and hand-tufted carpet industry as well as its established network for procurement as

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> Comprises Obeetee Private Limited (the holding company) and its wholly-owned subsidiaries such as Obeetee Textiles Private Limited, Obeetee Retails Private Limited, Obeetee Inc., USA, Manor & Mews Limited, UK, Trimar Exports Private Limited (amalgamated into OPL during FY2017)

well as sales and distribution. The Group's strong relationship with its customers is another positive. Owing to its long presence, the Group has established a weaver base across Mirzapur and Bhadohi, Uttar Pradesh that mitigates the risks related to supply bottlenecks.

ICRA notes that the fiscal incentives in terms of duty drawback and duty scrip licenses (Merchandise Exports from India Scheme or MEIS) on exports support the Group's profitability and any downward revision in the same may adversely impact the margins. Further, the ratings are constrained by high customer-concentration risk with ~45-50% of revenues coming from a single client.

The Group's ability to maintain top-line growth and profitability with adequate liquidity will be a key rating sensitivity. Any sizable debt-funded capex or investments will also be key monitorables.

### Outlook: Stable

ICRA believes that the Obeetee Group will continue to benefit from the extensive experience of its management in the carpet (handmade and machine made) industry and its established relations with customers. The outlook may be revised to Positive if substantial growth in revenues and profitability, and better working capital management strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if the group undertakes major capital expenditure, or stretch in the working capital cycle weakens liquidity.

### Key rating drivers

#### Credit strengths

**Extensive experience of promoters in carpet industry; established relations with buyers and weavers** – The company has extensive experience in the hand-tufted and hand-knotted carpet-manufacturing industry. The company has tie-ups with various wool yarn manufacturers that regularly supply woollen yarn. The Obeetee Group has an employee base of around 300 artisans from Uttar Pradesh and Bihar. This apart, the Group has tie-ups with 25,000-plus weavers who perform the tufting and knotting activities on a piece rate basis (payment is based on the square meters of carpet processed). The Obeetee Group has long and established relations with the customers as well as suppliers of wool and other natural and man-made yarn. The Group has a strong relationship with its major overseas buyers as well.

**Operations in a niche product segment with higher profit margins** – The company's niche product segments such as hand-knotted carpet, durries and bath mattresses have shown healthy performance in FY2018. This is despite appreciation in the Indian currency affecting the rupee revenue in FY2018 for other products such as hand-tufted carpets.

**Robust job-worker base helps in timely availability of labour and deliveries** – OPL primarily deals in hand-tufted and hand-knotted carpets that involve a comparatively higher labour-intensive manufacturing process. Obeetee Textile Private Limited (OTPL), on the other hand, manufactures non-woven (machine-made) carpets and technical textiles, which are less labour intensive and require higher investment in plant and machines. The company's established relations with job-workers and artisans has helped in executing orders in a timely manner. It has a job-worker base of ~25,000 labourers.

**Established relations with customers and healthy order book position** – OPL mainly exports to the US and Europe. The Group has deployed six to eight designers at its New York office, who communicate with the overseas buyers and participate in annual events. This helps them maintain a healthy relationship with the customers as reflected by a healthy order book position as on May 30, 2018.

**Favourable financial profile with comfortable capital structure** – The company's financial profile remained comfortable with low gearing of 0.2 times as on March 31, 2018, and consistent net cash accruals. On a consolidated basis, OPL's net cash accruals declined to Rs. 39.1 crore in FY2018 from Rs. 65.3 crore in FY2017 on account of fall in the top line and profitability. However, the company's strong liquidity profile supported by its cash and liquid investments of Rs. 87.3

strengthens its credit profile. The Obeetee Group's interest coverage stood at 13.2 times in FY2018 compared with 33.4 times in the previous year.

## Credit challenges

**Regulatory changes related to fiscal incentives (downward revision) could affect the profitability** – ICRA expects any downward revision in the rates of duty drawback or duty scrips of MEIS would likely affect the export revenue of OPL. Moreover, the decline in the fiscal incentives after the implementation of the Goods and Services Tax (GST) was short lived and the Government of India corrected it through an increase in the MEIS duty scrips from 5% to 7% in November 2017.

**Customer and geographical-concentration risks are high** – The Group faces customer-concentration risk as majority of revenues are contributed by a single customer. As far as the geographical concentration is concerned, the sales are highly skewed to the US. In the handmade carpet segment, the US contributes ~65% to the overall sales of the group and domestic sales account for ~30%.

**Exposed to foreign currency fluctuation and volatility in raw material prices** – The Obeetee Group is exposed to fluctuations in raw material prices (~50-55% of cost of production), i.e. woollen yarn and cotton yarn. Any major price escalation would affect the profitability owing to intense competition and the inability to pass on the raw material price escalation to customers.

**Analytical approach:** For arriving at the ratings, ICRA has considered the operational and financial linkages between OPL and its wholly-owned subsidiaries and hence consider the consolidated profile of the Obeetee Group. Furthermore, ICRA has applied its rating methodologies as indicated below.

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)  
[Approach for Financial Ratio Analysis](#)  
[Liquidity Analysis of Entities in the Non-Financial Sector](#)

## About the company

OPL is a part of the Mirzapur, Varanasi-based Obeetee Group, which manufactures hand-knotted, hand-tufted and machine-made carpets. OPL is the largest company in the Group and is the holding company of Obeetee Textiles Private Limited (OTPL). The Obeetee Group commenced operations in 1920 with its first production facility at Mirzapur, Varanasi. At present, the majority stake in the Group is held by West Bengal-based Luxmi Tea Co. Limited (rated [ICRA]A (Stable)/A1). The Group has a weaver base of over 25,000 spread across Mirzapur and Bhadohi.

OPL has five wholly-owned subsidiaries that manufacture and market carpets. The company mainly caters to the export market with its hand-knotted and hand-tufted carpets. The Group has received various awards and accolades in carpet manufacturing such as Social Accountability System Certification (SA8000:2008), excellence awards and Niryat Shree Award. In 1969, it became the world's first licensee of Woolmark for hand-knotted carpets.

On a standalone basis, OPL reported a net profit of Rs. 21.5 crore on an operating income (OI) of Rs. 311.7 crore in FY2018 compared with a net profit of Rs. 39.9 crore on an OI of Rs. 348.6 crore in the previous year.

On a consolidated basis, OPL reported a net profit of Rs. 30.1 crore on an OI of Rs. 484.8 crore in FY2018 compared with a net profit of Rs. 57.1 crore on an OI of Rs. 516.5 crore in the previous year.

## Key financial indicators

	OPL (Standalone)			OPL (Consolidated)		
	FY2016	FY2017	FY2018	FY2016	FY2017	FY2018
	IGAAP	IndAS	IndAS	IGAAP	IndAS	IndAS
Operating Income (Rs. crore)	274.6	348.6	311.7	483.6	516.5	484.8
PAT (Rs. crore)	13.3	39.9	21.5	48.3	57.1	30.1
OPBDIT/OI (%)	7.7%	18.8%	8.8%	16.7%	18.5%	10.8%
RoCE (%)	12.3%	30.3%	13.2%	34.4%	33.1%	15.4%
Total Debt/TNW (times)	0.1	0.2	0.2	0.2	0.2	0.2
Total Debt/OPBDIT (times)	1.1	0.6	1.5	0.4	0.5	1.1
Interest coverage (times)	6.5	40.3	9.3	18.8	33.4	13.2

**Status of non-cooperation with previous CRA:** CRISIL has revised its rating of CRISIL BBB+/Stable/ CRISIL A2 (Issuer Not Cooperating) to CRISIL BB+/Stable/ CRISIL A4+ (Issuer Not Cooperating) on October 23, 2018 due to non-cooperation in submission of the information. The rating is based on the best-available information.

**Any other information: None**

## Rating history for last three years

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years				
		Amount Rated	Amount Outstanding	Date & Rating	Date & Rating	Date & Rating	Date & Rating	Date & Rating
		(Rs. crore)	(Rs. crore)	November 2018	October 2018	August 2017	August 2016	-
1	Fund based limits	Long/Short Term	78.00	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	-
2	Non-fund based limits	Long/Short Term	3.60	[ICRA]A+ (Stable)/ [ICRA]A1	-	-	-	-

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based (Long Term/ Short Term)	-	-	-	78.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Non-fund Based (Long Term/ Short Term)	-	-	-	3.60	[ICRA]A+ (Stable)/ [ICRA]A1

Source: OPL

## ANALYST CONTACTS

**K Ravichandran**  
+91 44 4596 4301  
[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Manish Ballabh**  
+91 124 4545 812  
[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Vipin Jindal**  
+91 124 4545 355  
[vipin.jindal@icraindia.com](mailto:vipin.jindal@icraindia.com)

**Perna Aggarwal**  
+91 124 4545 891  
[perna.aggarwal@icraindia.com](mailto:perna.aggarwal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents