

December 10, 2020

Obeetee Textiles Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund-based	27.45	27.45	[ICRA]A+ (Negative)/[ICRA]A1; reaffirmed
Long-term/Short-term Non-fund Based	2.50	2.50	[ICRA]A+ (Negative)/[ICRA]A1; reaffirmed
Total	29.95	29.95	

*Instrument details are provided in Annexure-1

Rationale

ICRA has considered the consolidated financial statements of Obeetee Private Limited (the holding company) along with its wholly-owned subsidiaries—Obeetee Textiles Private Limited, Obeetee Retail Private Limited, Obeetee Inc., Manor & Mews Private Limited and Manor & Mews Limited.

For arriving at the rating, ICRA has taken a consolidated view of Obeetee Private Limited (OPL) and Obeetee Textiles Private Limited (OTPL), given their close business, financial and managerial linkages.

The ratings reaffirmation continues to take into account the extensive experience of the Group in the hand-knotted and hand-tufted carpet industry as well as its established network for procurement, sales and distribution, as well as the Group's established relationship with its customers. Further, ICRA factors in the Group's healthy capital structure with gearing of 0.4 times as on March 31, 2020. The Group's robust job-worker base is another credit positive helping in timely availability of labour and deliveries.

The ratings are constrained by the high customer-concentration risk to which the Group is exposed, with significant portion of revenues coming from a single client. The ratings also take note of the vulnerability of the Group's profitability to volatility in raw material prices as well as its exposure to foreign exchange rate risks, as exports account for a significant portion of its revenues. Moreover, stiff competition from several domestic and international players limits its ability to pass on increase in costs, which limits the scope for margin expansion. ICRA notes that the fiscal incentives in terms of duty drawback and duty scrip licenses on exports support the Group's profitability. Any downward revision in the same may adversely impact the margins.

The Negative outlook on the ratings was driven by the moderation in the Group's profitability and low return indicators in FY2020 owing to higher input costs, currency fluctuations and execution of lower margin orders. Further, the profitability was impacted due to losses in the furniture business. The Covid-19-induced lockdown, sluggish demand and halt in operations further impacted the profitability. Furthermore, the increased working capital intensity resulted in higher working capital borrowings, moderating the gearing and debt coverage indicators, albeit to comfortable levels. ICRA has taken favourable note of the improvement in the Group's revenues and margins in the recent months in the carpets and other textiles businesses, along with reduced losses in the furniture business. It is the sustainability of this recent improvement in revenues and profitability which would be the key for revision in the outlook to Stable. The Group's ability

to sustain adequate profitability and cash accruals in the businesses to keep the financial profile comfortable in the backdrop of fluid consumer sentiment would be a key monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in carpet industry; established relations with buyers and weavers – The company has almost a century-long track record of operations of in the hand-tufted and hand-knotted carpet manufacturing industry. The Group has tie-ups with various wool yarn manufacturers that regularly supply woollen yarn, along with established ties with suppliers of other natural and man-made 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 more than 25,000 weavers, who perform the tufting and knotting activities on a piece rate basis (payment is based on the square meters of carpet processed). The Group has a strong relationship with its clients as well.

Comfortable capitalisation metric – On a consolidated basis, the capital structure remained comfortable despite an increase in debt levels and decline in cash accruals in FY2020, with a gearing of 0.4 times as on March 31, 2020 (0.3 times as on March 31, 2019). On a consolidated basis, OPL reported net cash accruals of Rs. 22.6 crore in FY2020 vis-à-vis Rs. 50.4 crore in FY2019 and Rs. 35.5 crore in FY2018.

Large 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. OTPL, on the other hand, manufactures non-woven (machine-made) carpets and technical textiles, which are less labour intensive but require higher investment in plant and machines. The company's established relations with job-workers and artisans have helped in executing orders in a timely manner. It has a job-worker base of ~25,000.

Credit challenges

High customer- and geographical-concentration risks – The Group faces customer-concentration risk as the majority of revenues are contributed by a single customer. Further, the sales are highly skewed to the US, resulting in geographical-concentration risk.

High working capital intensity – On a consolidated basis, working capital intensity remained high at 44.1% in FY2020 (41.9% in FY2019) owing to stretched debtors and high level of inventory being maintained by the Group. Further, the Group witnessed decline in operating margins and RoCE in FY2020 along with dip in the top line on a consolidated level.

Exposed to foreign currency fluctuation and volatility in raw material prices – The margins of the Group are vulnerable to raw material price fluctuations, which in turn affect sales realisations. Any adverse movement in the price of raw materials could impact the company's margins, considering the intense competition. As exports constitute a significant percentage of the turnover, the company remains exposed to currency fluctuations to the extent of unhedged exposure.

Any downward revision in export incentives may impact profitability – The Government of India (GoI) extends various incentives to encourage exporters. The Obeetee Group enjoys export incentives, which support its operating profit margins. Thus, any change in incentives extended by the GoI to exporters or in the regulatory policies of importing countries can adversely impact its profitability and cash flows.

Liquidity position: Adequate

The Group has **adequate** liquidity as reflected in healthy cash and liquid investments of Rs. 41.1 crore as on October 31, 2020. The Group has minimal debt repayment obligations and limited capex commitments, which are likely to be comfortably met through cash accruals.

Rating sensitivities

Positive trigger – Improvement in profitability metrics and return indicators on a sustained basis along with improved working capital intensity resulting in healthy liquidity profile may result in a change in the outlook to Stable.

Negative trigger – Decrease in revenue growth, notable weakening of profitability metrics, any major debt-funded capital expenditure, or stretch in the working capital cycle will be credit negatives. A higher-than-anticipated large dividend outflow on a sustained basis can also have an adverse impact on the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Rating Methodology for Entities in the Indian Textiles Industry – Fabric Making
Parent/Group Support	Not applicable
Consolidation/Standalone	<p>ICRA has considered the consolidated financial statements of Obeetee Private Limited (the holding company) along with its wholly-owned subsidiaries, namely Obeetee Textiles Private Limited, Obeetee Retail Private Limited, Obeetee Inc., Manor & Mews Private Limited, and Manor & Mews Limited</p> <p>For arriving at the rating, ICRA has taken a consolidated view of Obeetee Private Limited and Obeetee Textiles Private Limited given their close business, financial and managerial linkages</p>

About the company

OTPL is a part of the Mirzapur, Varanasi-based Obeetee Group, which manufactures hand-knotted, hand-tufted and machine-made carpets. OTPL is the second-largest company in the group followed by OPL. OTPL commenced operations in 1998 to undertake the manufacturing of non-woven carpet and technical textile to cater to the need of automobile ancillaries. OTPL is the 100% subsidiary of OPL.

The Obeetee Group commenced operations in 1920 with its first production facility at Mirzapur, Varanasi. The Group has a weaver base of over 25,000 spread across Mirzapur and Bhadohi. OPL is the 100% subsidiary of West Bengal-based Luxmi Tea Company Private Limited (rated [ICRA]BBB+ (Stable)/[ICRA]A2).

OPL has five wholly-owned subsidiaries, three of which are into manufacturing and marketing of carpets. The other two subsidiaries are into the furniture business. 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.

Key financial indicators (audited)

	OTPL (Standalone)		OPL (Consolidated)	
	FY2019	FY2020	FY2019	FY2020 [^]
Operating Income (Rs. crore)	214.0	213.6	552.9	509.5
PAT (Rs. crore)	38.9	38.3	40.1	12.4
OPBDITA/OI (%)	25.7%	25.3%	12.1%	7.1%
PAT/OI (%)	18.2%	17.9%	7.2%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.5	0.5
Total Debt/OPBDITA (times)	0.2	0.1	1.7	3.2
Interest Coverage (times)	45.1	35.5	12.9	4.8

[^]provisional financials

Status of non-cooperation with previous CRA

CRISIL has revised its rating to CRISIL B+/Stable/CRISIL A4 (Issuer Not Cooperating) from CRISIL BB+/Stable/CRISIL A4+ (Issuer Not Cooperating) on January 27, 2020 due to non-cooperation in submission of information. The rating is based on the best-available information. [Rationale Link](#)

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018
					10-Dec-2020		11-Dec-2019	1-Nov-2018	
1	Fund based limits	Long/Short Term	27.45		[ICRA]A+ (Negative)/[ICRA]A1	[ICRA]A+ (Negative)/[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	2.50		[ICRA]A+ (Negative)/[ICRA]A1	[ICRA]A+ (Negative)/[ICRA]A1	[ICRA]A+ (Stable)/[ICRA]A1	-	-

Amount in Rs. crore

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 [click here](#)

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)	-	-	-	27.45	[ICRA]A+ (Negative)/ [ICRA]A1
NA	Non-fund Based (Long Term/ Short Term)	-	-	-	2.50	[ICRA]A+ (Negative)/ [ICRA]A1

Source: OTPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Obeetee Textiles Pvt. Ltd.	100.00%	Full Consolidation
Obeetee Retail Pvt. Ltd.	100.00%	Full Consolidation
Obeetee Inc.	100.00%	Full Consolidation
Manor & Mews Ltd.	100.00%	Full Consolidation
Manor & Mews Pvt. Ltd.	100.00%	Full Consolidation

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