

April 10, 2017

## Surya Carpet Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Short-term fund-based	43.20	[ICRA]A2; Assigned
Short-term non-fund based	0.50	[ICRA]A2; Assigned
Long-term/Short-term non-fund based	1.30	[ICRA]BBB (Stable)/[ICRA]A2; Assigned
<b>Total</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned the long-term rating of [ICRA]BBB (pronounced ICRA triple B)<sup>1</sup> and the short-term rating of [ICRA]A2 (pronounced ICRA A two) on the Rs. 45.0-crore<sup>2</sup> bank facilities of Surya Carpet Private Limited (SCPL). The outlook on the long-term rating is 'Stable'.

### Detailed rationale

ICRA's ratings take into account the extensive experience of the management in the hand tufted and knotted carpet manufacturing industry and the company's established relationship with buyers and weavers. The operational performance of the firm has been encouraging, as reflected in the high volumetric growth in the past few years, on the back of healthy demand of hand tufted carpet from its key market segment i.e. the USA. However, the performance is expected to be weaker in FY2017 owing to lower order book. The company hedges ~45-50% of its export receivables while the rest are naturally hedged as it imports fine wool and has working capital loan in a foreign currency. Healthy operational metrics along with fiscal incentives in terms of duty drawback and import license premium have resulted in favourable financial profile of the company. The debt coverage indicators in FY2016 were healthy, backed by healthy profitability and comfortable liquidity. The company's strong revenue growth and healthy profitability margins continue to result in adequate accruals to fund most of the incremental funding requirements, keeping the financial profile healthy. In FY2016, the company sold all the shares of its wholly-owned subsidiary Surya Carpet Inc. for Rs. 24.23 crore to the promoter group, which is the sole customer for SCPL.

ICRA notes that fiscal incentives in terms of duty drawback and import license premium support the profitability of the company and any downward revision in the same may have adverse impact on the margins. Furthermore, the rating is constrained by high customer concentration risk (~98% of revenues come from Surya Carpet Inc) and geographical concentration risk (~100% of revenues come from the USA). ICRA has also taken note of the high working capital intensity (NWC/OI of ~74% in FY2016) because of the extended credit period offered to Surya Carpet Inc. The ratings also take into account SCPL's exposure to volatility in raw material prices as the major raw material (fine wool) is imported.

The ability of the company to maintain the top-line growth and profitability with adequate liquidity will be the key rating sensitivity. Any large debt-funded capex will be closely monitored.

<sup>1</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>2</sup> 100 lakh = 1 crore = 10 million

## **Key rating drivers**

### **Credit strengths**

- Extensive experience of the promoters in the carpet manufacturing industry and the long track record of the company; established relationship with buyers and weavers
- Healthy top-line growth driven by healthy volumetric growth in niche product segment as well as mass product segment
- Fiscal incentives in terms of duty drawback and import license premium on exports; these incentives contribute ~11-13% to the OI
- Favourable financial profile with comfortable gearing of 0.09 times, interest coverage of 47.06 times and NCA/Total debt of ~402% in FY2016 backed by healthy profitability
- Healthy revenue growth and healthy profitability margins result in adequate accruals, which fund most of the incremental funding requirements and keeps the financial profile healthy

### **Credit weaknesses**

- Single customer, Surya Carpet Inc., contributes around 98% towards the total revenue
- High working capital intensity due to extended credit period offered to Surya Carpet Inc.
- Any downward revision in export incentives by the Indian Government can impact the profitability
- Geographical concentration risk as majority of revenue comes from the United States (~100%).
- Exposed to volatility in the raw material prices as the major raw material i.e. fine wools is imported from New Zealand, Pakistan and Middle-East countries

## **Detailed description of key rating drivers**

SCPL manufactures and exports hand tufted and knotted carpet, cushion covers, durries and other types of rugs and home furnishing items from its facilities located at Bhadohi and Noida, Uttar Pradesh. These products have considerable demand, mainly in the US market. The company has tie-ups with over 10000+ weavers. The company procures high quality raw wool from New Zealand, Pakistan and Middle-East countries and undertakes sorting, washing, drying, blending, spinning and other activities on its own. It sends the processed yarn to Chandra Woolen Pvt. Ltd. (wholly owned subsidiary) for dyeing and further processing and then it is dispatched to the weavers along with stencils, design maps and computer-assisted designs. The sales volume of tufted carpet increased to 8.15 lakh sq meters in FY2016 from 6.70 lakh sq meters in FY2015, registering a y-o-y growth of ~22%. The volumetric growth remained robust at ~73% for knotted carpet and increased to 0.45 lakh sq meters in FY2016 from 0.26 lakh sq meters in FY2015. The sales realisation of both hand tufted and hand knotted carpets increased by ~4% in FY2016. Almost 98% of the revenues are contributed by a single customer, Surya Carpet Inc., resulting in high customer concentration risk. As far as the geographical concentration is concerned, the company exports ~100% of the carpet shipment to the US.

SCPL registered an OI of Rs. 211.35 crore in FY2016 up from Rs. 175.56 crore in FY2015, showing a y-o-y growth of ~20%, backed by healthy realisation and increased share of premium hand tufted carpet and hand knotted carpet, which are more margin accretive. The OPM of the group increased to 31.29% in FY2016 from 30.49% in FY2015. The capital structure of the group remained healthy with gearing of 0.09 times as on March 31, 2016 compared to 0.25 times as on March 31, 2015 with interest coverage of 47.06 times and 15.89 times, respectively, in FY2016 and FY2015. The working capital intensity remained high at ~74% in FY2016 due to high receivable days. ~99% of the outstanding debtors belong to Surya Carpet Inc.

**Analytical approach**

For arriving at the ratings, ICRA has taken into account the business risk profile, financial risk drivers and management profile of Surya Carpet Private Limited.

**Links to applicable criteria**

**Corporate Credit Ratings: A Note on Methodology**

**Rating Methodology for Indian Textiles Industry – Fabric**

**About the company:**

Established in 1976, Surya Rugs was a proprietorship company of Mr. Surya Mani Tiwari, before it was converted into a private limited company in 1983 under the title “Surya Carpet Private Limited”. The company manufactures and exports hand tufted and knotted carpets, cushion covers, durries and other types of rugs and home furnishing items.

In FY2016, the company reported a net profit of Rs. 68.07 crore on an operating income of Rs. 211.35 crore, as compared to a net profit of Rs. 28.26 crore on an operating income of Rs. 175.56 crore in the previous year.

**Status of non-cooperation with previous CRA:**

India Ratings and Research has suspended IND A2 rating on the bank facilities of Surya Carpet Private Limited (SCPL) on September 02, 2016. The ratings have been migrated to the suspended category due to lack of adequate information.

**Any other information:** Not applicable

**Rating history for last three years:**
**Table: Rating history**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				April 2017	-	-	-
1	EPC	Short Term	16.00	[ICRA]A2	-	-	-
2	FBP	Short Term	20.00	[ICRA]A2	-	-	-
3	Stand by line of credit	Short Term	7.20	[ICRA]A2	-	-	-
4	Letter of Credit	Short Term	0.50	[ICRA]A2	-	-	-
5	Derivatives (Foreign currency)	Long Term/ Short Term	1.30	[ICRA]BBB (Stable)/[ICRA]A2	-	-	-

**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**  
**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
EPC	-	-	-	16.00	[ICRA]A2
FBP	-	-	-	20.00	[ICRA]A2
Stand by line of credit	-	-	-	7.20	[ICRA]A2
Letter of Credit	-	-	-	0.50	[ICRA]A2
Derivatives (Foreign currency)	-	-	-	1.30	[ICRA]BBB (Stable)/[ICRA]A2

**Name and Contact Details of the Rating Analyst(s):**

**Sabyasachi Majumdar**  
+0124-4545 304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Amit Arora**  
+0124-4545 318  
[amita@icraindia.com](mailto:amita@icraindia.com)

**Manish Ballabh**  
+0124-4545 812  
[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Prerna Aggarwal**  
+0124- 4545 891  
[prerna.aggarwal@icraindia.com](mailto:prerna.aggarwal@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

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

© Copyright, 2017, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

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

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

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

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

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

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

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

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

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

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

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

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

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

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

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

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500