

July 17, 2020

Chinar Forge Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]B (Stable); Rating assigned
Total	-	

*Instrument details are provided in Annexure-1

Rationale

ICRA assigned rating takes into account the moderate financial profile of the company as reflected by moderate scale of operations, elevated TOL/TNW levels and moderate debt coverage indicators. Moreover, the operations are working capital intensive marked by high receivables and inventory which has led to stretched liquidity position of the company reflected in almost full utilization of working capital limits. In addition to this, the rating also factors in the vulnerability of the company's profitability to fluctuations in raw material prices and intense competitive pressure in the non-woven carpet industry. Moreover, amid the ongoing Covid pandemic, the exact impact on revenues and profitability of the company is yet to be seen.

The rating however positively factors in the experience of the promoters in non-woven textile segment. ICRA rating also takes into consideration the healthy demand outlook of the new products launched by company during Covid 19 including protective equipment segment which has healthy order book position as well. The ratings also take into account the strong and diversified clientele including modern retail as well as online channel.

The Stable outlook on [ICRA]B rating reflects the fact that CFL will continue to benefit from the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Long standing experience of the promoters in the industry – The promoter family has extensive experience in the non-woven carpet manufacturing industry. Presently, Mr. Sheetej Vij along with other professionals looks after the business and has around three decades long experience in this industry. Accordingly, the company has a well-established market position and established relationships with various traders for offtake of its products.

Diverse range of product offerings – CFL has a wide portfolio of product offerings which includes interior furnishing products like carpet, rugs, doormats, wall coverings/wallpapers, interior artworks and decorative paintings. The company is also one of the leading suppliers of bedroom essentials like blankets, quilts and bedsheets. In addition to the interior furnishing products the company has further diversified its product portfolio by addition of personal protective equipment like PPE kits and masks.

Diversified customer profile and well-established sales network – CFL caters to some of the well reputed companies in the domestic corporate space. The company has a diversified customer portfolio with highly rated clients which reduce its counterparty credit risk up to a large extent. CFL's diversified customer base is spread across modern retail stores and network of dealers and distributors with top 10 customers contributing only 24% of revenue in FY2020.

Healthy revenue visibility through addition of protective equipment kits and masks to the product portfolio – In order to cater to the rising demand for PPE kit and protective masks due to the outbreak of Covid-19 pandemic, CFL initiated manufacturing of personal medical protective equipment from its existing facilities in May 2020. Its products include PPE kits, N-95 masks, designer protective masks, table-top sheets for clinics and bedsheets for ambulance and hospitals. With the ongoing situation of Covid-19 pandemic, these products are expected to be in high demand in near term.

Credit challenges

Moderate financial risk profile characterised by leveraged capital structure – The company has high gearing and elevated TOL/TNW levels. The debt protection metrics has also remained weak with interest coverage of 2.22 times and an NCA/TD of 10% as on March 31, 2019.

Working capital intensive nature of operations leading to stretched liquidity – The liquidity position remained tight due to stretch in receivable days. Consequently, the working capital limit remained fully utilized during the last 12-month period. Working capital requirement has remained high on account of high inventory and debtor level. While the limit utilisation has moderated in May and June, the sustenance of lower utilisation over the longer period is a key monitorable. However, comfort could be taken from sustained unsecured loans extended by the promoters to support the working-capital intensive nature of operations.

Moderate scale of operations in a highly fragmented industry – CFL is exposed to intense competition from various organized and unorganized players –With revenues of Rs. 91.79 crore in FY2019, CFL continues to operate on a moderate scale in the non-woven carpet manufacturing industry which is fragmented with large number of players. High proportion of small-scale units operating in this industry has resulted in fragmented nature of the industry leading to intense competition amongst the players.

Profitability remain vulnerable to fluctuations in raw material prices as well as crude oil prices – The basic raw material for the company is PP granules which is derivative of crude oil hence its price is determined by global crude oil price. The profitability remains exposed to fluctuations in raw material prices in the interim period while large fluctuations are covered through pass on arrangements.

Liquidity position: Stretched

CFL exhibits **Stretched** liquidity position on account of high working capital limit utilization throughout the year. The average utilisation of working capital limits over the last 12 months ending May 2020 stood at 98%. However, healthy cash accruals generated by the company on sustained basis and unsecured loans from promoters and related parties provide comfort to the liquidity position.

Rating sensitivities

Positive triggers: The ratings could be upgraded if the company demonstrates a sustained improvement in revenue and profitability leading to improvement in debt coverage indicators.

Negative triggers: Rating could be downgraded in case of substantial decline in the revenue and operating margins resulting in subdued cash accruals. Any further debt funded capital expenditure leading to deterioration of credit profile could lead to negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone position of CFL

About the company

Chinar Forge Limited was incorporated in 1992. The company has traditionally been engaged in the manufacturing and sales of wide variety of interior designing products which includes carpets, tufted mats, rugs, wallpapers, upholstery, curtains etc. In addition to the interior set-up products, the company is also engaged in supplying bedroom furnishing products to leading brands and hotel chains.

In order to cater to the rising demand for PPE kit and protective masks due to the outbreak of Covid-19 pandemic, CFL initiated manufacturing of personal medical protective equipment from its existing facilities in May 2020. Its products include PPE kits, N-95 masks, designer protective masks, table-top sheets for clinics and bedsheets for ambulance and hospitals. The Company has acquired various quality certifications from ICIUK, SITRA (The South India Textile Research Association) and Institute of Nuclear Medicine & Allied Sciences (INMAS - DRDO).

CFL currently operates from its six manufacturing facilities, all located in Jalandhar, at an installed capacity for production of 15 lakh square meters of non-woven fabric per month, as in June 2020.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	69.91	91.79
PAT (Rs. crore)	2.14	2.77
OPBDIT/OI (%)	13.85%	16.43%
RoCE (%)	9.00%	11.40%
Total Outside Liabilities/Tangible Net Worth (times)	4.21	4.01
Total Debt/ OPBDITA (times)	6.23	4.64
Interest Coverage (times)	2.74	2.22
DSCR	1.63	1.56

Source: Company data

Status of non-cooperation with previous CRA

CFL had an outstanding rating of CRISIL D; Issuer not cooperating (PR dated Jan 3, 2020) and CARE D; Issuer Not Cooperating (PR dated Dec 25, 2019). Both the ratings are now withdrawn.

Any other information: None

Rating history for last three years

Chronology of Rating History for the past 3 years							
				Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
Instrument	Type	Amount Rated (Rs. crore)		17 July 2020	-	-	-
1	Issuer Rating	Long Term	-	[ICRA]B (Stable)	-	-	-

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

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	Issuer Rating	-	-	-	-	[ICRA]B (Stable)

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