

October 29, 2020

Marudhar Fashions: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term fund based – Term Loan	6.18	-	-
Short Term fund based – Working Capital	15.00	-	-
Long Term/Short Term Unallocated limits	6.82	-	-
Long Term/Short Term fund based – Working Capital	-	15.00	[ICRA]BB- (Stable)/[ICRA]A4; Reaffirmed
Total	28.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to favourably factor in Marudhar Fashion's ("MF" or "the firm") healthy profitability, comfortable capital structure and moderate debt coverage indicators in FY2020. ICRA notes that apart from the carpet manufacturing business, the firm owns five windmills and a solar power plant, which further aids the profitability of the firm. The ratings further factor in the extensive experience of partners of over three decades in the carpet business and the benefits derived from the sales and marketing network of its subsidiary, Kaleen Rugs Inc. (Kaleen) in the USA.

The ratings, however, remain constrained by the firm's moderate scale of operations and high working capital intensity of operations emanating from large receivables outstanding from Kaleen and its slow-moving inventory. The firm also remains exposed to high geographic and customer concentration risks as more than 80% of its total revenues are generated through its subsidiary, Kaleen in the USA. MF's profitability margins also remain exposed to adverse movement in foreign exchange rates as it derives more than 80% of its total revenue from the exports market. ICRA also notes the firm's exposure to the risk of withdrawal of capital due to its constitution as a partnership firm.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that MF will continue to benefit from the extensive experience of its promoters and well established marketing network of its subsidiary in the USA. Moreover, ICRA believes that there are growth opportunities for the firm from the sale of handloom carpets, which will be a growth driver for the firm in the future.

Key rating drivers and their description

Credit strengths

Extensive experience of over three decades of the partners in the carpet business - The partners of the firm have more than three decades of rich experience in the field of fabric manufacturing and exporting carpets. They have good functional knowledge of the business operations and demand conditions, especially in the export market.

Well established sales and marketing network of subsidiary in the USA - The carpets manufactured by MF are largely sold to Kaleen, who sells the same in the US market under the registered brand, "Kaleen". Kaleen handles the marketing and distribution through its sales showrooms in Atlanta, Las Vegas and High Point. Having a manufacturing base in India's

Bhadohi–Mirzapur belt (Uttar Pradesh) and a marketing network in the US have proved to be a major advantage as it reduces the company's dependency on vendors for carpet manufacturing as well as provides easier market access for its products in the USA.

Healthy profitability, comfortable capital structure and moderate coverage indicators; income from windmills/solar power plant aids profitability – MF's operating income declined by 30% YoY in FY2020 (provisional) due to lower volumes sold in the US market. The decline was due to changing tastes and preferences of consumers from hand-tufted carpets to handloom carpets. The operating profit of the firm declined to 15% in FY2020 from 22% in FY2019 due to higher operating costs resulting from the newly setup manufacturing facility in Panipat (Haryana). Although the operating profit margin declined in FY2020, it continues to remain healthy due to the high value-added nature of the work performed by the company. The firm's diversified sources of income from the sale of electricity generated through five wind turbine generators (WTGs) and a solar power plant supports profitability. The income from the energy sale stood at Rs. 6.04 crore in FY2020, at ~8.6% of its operating income for FY2020.

Despite increase in total debt due to term loan availed to fund the capex for the Panipat unit, the capital structure remained comfortable with a gearing of 0.49 time as on March 31, 2020 due to MF's strong net worth. The coverage indicators are moderate as represented by interest coverage ratio of 3.80 times and debt service coverage ratio (DSCR) of 2.55 times as on March 31, 2020.

Credit challenges

Modest scale of operations – The scale of operations of the firm have remain modest as reflected by an operating income of Rs. 70 crore in FY2020. Carpets being an item of discretionary spend, MF is exposed to changes in taste and preferences of consumers. The revenue was impacted in FY2020 with an increase in demand for handloom carpets as compared to hand-tufted carpets. However, with the scaling up of operations at the Panipat facility, it is expected that the firm will be able to meet the existing demand for handloom carpets. For H1 FY2021, the firm has generated revenues of Rs. 30 crore from the sale of carpets.

High working capital intensity primarily due to large receivables outstanding from its subsidiary and slow-moving inventory position in the carpet segment - The liquidity position of MF continues to be highly stretched as represented by NWC/OI of 85% in FY2020 due to debtor days, which continue to remain high owing to the lax credit period extended to its subsidiary, Kaleen. The collection from state discoms also remain stretched, which impacts the overall working capital cycle. Out of the total receivables outstanding as on March 31, 2020, over 18% is overdue for more than six months. Further, the inventory movement have also been slow with average inventory holding of more than four months over the last few years. The inventory holding period increased to 172 days in FY2020 due to halt in shipments to USA resulting from the outbreak of the Covid-19 pandemic.

High geographic and customer concentration risks, as most of the carpet sales are made to its own subsidiary in the USA - The firm sells its carpets largely through its subsidiary, Kaleen, in the US market. This results in high client concentration as well as high geographic concentration risks. Furthermore, Kaleen being the major customer for carpet exports, the revenues and liquidity profile are largely contingent on its performance. The firm sold more than 80% of carpets in the US through Kaleen in FY2020.

Risk of adverse movement in forex rates can affect margins – The firm sold 98% of its carpets to export markets in FY2020. This exposes the firm's profit margins to unfavourable movement in foreign exchange rates in the absence of an active hedging mechanism.

Risks associated with being a partnership firm with possible withdrawal of capital and unsecured loans – MF remains susceptible to risks associated with its status as a partnership firm, including the risk of withdrawal of capital and unsecured loan. In FY2020, there were capital withdrawals of Rs. 4.91 crore. However, ICRA takes comfort from the firm's healthy cash accruals of Rs 9.7 crore in FY2020 and infusion of funds in the form of unsecured loans to fund the

capex. The unsecured loans from partners and their families increased to Rs. 11.77 crore as on March 31, 2020 from Rs. 7.04 as on March 31, 2019, to support the capex for the Panipat plant.

Liquidity position: Stretched

The liquidity position of the firm remains stretched as reflected from NWC/OI of 85% in FY2020 owing to sluggish receivables and high inventory levels. The collection period from firm's US-based subsidiary, Kaleen, and state discoms remains stretched as represented by an average collection period of 292 days in FY2020. Further, the inventory movement has also been slow with an average inventory holding period of more than four months over the last few years. The firm has term loan repayments of Rs. 3.71 crore, Rs 2.85 crore and Rs. 3.21 crore in FY2021, FY2022 and FY2023, respectively. However, net cash accruals are expected to remain sufficient for term loan repayments. The firm also had cash balance of Rs. 1.17 crore as on March 31, 2020.

Rating Sensitivities

Positive Triggers – The ratings are likely to be upgraded if the company shows substantial growth in revenue with diversification in client profile and geographies on a sustained basis. Significant improvement in the working capital position, especially debtors turnaround, will also remain critical for a rating upgrade.

Negative Triggers – Negative pressure on the ratings could emerge if the firm's revenues and profitability decline on a sustained basis. Any stretch in working capital cycle due to further elongation of receivables cycle, will also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 1989, Marudhar Fashions, a partnership firm, is engaged in the manufacturing and export of hand-tufted and loom-made carpets under the brand, 'Kaleen', through its subsidiary, Kaleen Rugs Inc., based in USA. MF is also involved in domestic trading of carpets, sale of towels, woollen yarn, packing materials and licenses. It is a star export house, recognised by the Government of India. The carpet manufacturing facilities of the firm are located in Mirzapur (Uttar Pradesh) and Panipat (Haryana), while its administrative office is at Lower Parel, Mumbai.

MF recorded a net profit of Rs. 8.99 crore on an operating income of Rs. 70 crore for the financial year ended March 31, 2020 (provisional numbers).

Key financial indicators

	FY2018 Audited	FY2019 Audited	FY2020 Provisional
Operating Income (₹ crore)	77.13	100.32	69.98
PAT (₹ crore)	10.18	17.94	8.99
OPBDIT/ OI (%)	18.94%	21.85%	15.32%
PAT/OI (%)	13.20%	17.88%	12.85%
Total Outside Liabilities/ Tangible Net Worth (times)	0.87	0.82	0.79
Total Debt/ OPBDIT (times)	1.47	1.46	3.51
Interest Coverage (times)	3.98	6.22	2.55

Source: Financial statements of MF and ICRA Research

Status of non-cooperation with previous CRA: CRISIL B+/Stable/A4 (ISSUER NOT COOPERATING); Revised from 'CRISIL BB-/Stable ISSUER NOT COOPERATING' – PR dated March 17, 2020

Any other information: None

Rating history for last three years

Sl. No.	Instrument	Current Rating (FY2021)				Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					29-Oct-2020	5-Apr-2019	12-Jul-2018	11-Jul-2017
1	Term Loan	Long-term	-	-	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2	Post Shipment Credit	Short-term	-	-	-	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Unallocated Limits	Short-term/ Long Term	-	-	-	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4	[ICRA]BB-(Stable)/ [ICRA]A4
4	Post Shipment Credit	Short-term/ Long Term	15.00	-	[ICRA]BB-(Stable)/ [ICRA]A4	-	-	-

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 www.icra.in

Annexure-1: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Post Shipment Credit	NA	NA	NA	15.00	[ICRA]BB-(Stable)/ [ICRA]A4

Source: Marudhar Fashions

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