

December 11, 2019

Obeetee Textiles Private Limited: Ratings reaffirmed; outlook revised to Negative; rated amount enhanced

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund Based	19.28	27.45	[ICRA]A+ (Negative)/ [ICRA]A1; reaffirmed; outlook revised to Negative from Stable
Long-term/Short-term Non-fund Based	8.16	2.50	[ICRA]A+ (Negative)/ [ICRA]A1; reaffirmed; outlook revised to Negative from Stable
Total	27.44	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 the close business, financial and managerial linkages among these.

The revision in the outlook of the long-term rating takes into account the pressure on the financial profile of the Obeetee Group¹ because of the moderation in profitability owing to low realisation, high input costs and other direct overheads in the current year. Though the operating margin improved to 12.1% in FY2019 from 10.9% in FY2018, driven by healthy volume offtake of handmade carpets and increased sales realisation, the high overhead expenses are likely to keep the profitability metrics under check. Moreover, stiff competition from several domestic and international players limits its ability to pass on price fluctuation, which limits the scope for margin expansion. Furthermore, the increased working capital intensity resulted in an increase in working capital borrowings, moderating the gearing and debt coverage indicators, albeit to comfortable levels. 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. Any downward revision in the same may adversely impact the margins. Further, the ratings are constrained by the high customer-concentration risk with more than 60% of revenues coming from a single client. The ratings also take note of the company's exposure to foreign exchange rate risk as exports account for a significant portion of its revenues and volatility in raw material prices.

¹ Comprises Obeetee Private Limited (the holding company) and its wholly-owned subsidiaries such as Obeetee Textiles Private Limited, Obeetee Retail Private Limited, Obeetee Inc., USA, Manor & Mews Limited, UK, and Manor & Mews Private Limited

The ratings, however, continue 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, sales and distribution. The Group's long-term 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. Further, ICRA takes into account the healthy capital structure with gearing of 0.3 times as on March 31, 2019, and comfortable debt-protection indicators. 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.

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 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 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 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.

Comfortable capitalisation and coverage metrics – On a consolidated basis, the capital structure remained comfortable despite an increase in the working capital borrowings at the end of March 2019 with low gearing of 0.3 times as on March 31, 2019, and consistent net cash accruals. On a consolidated basis, OPL reported net cash accruals of Rs. 50.4 crore in FY2019 vis-à-vis Rs. 35.5 crore in FY2018 and Rs. 65.3 crore in FY2017. The debt coverage indicators of the Group remained comfortable with interest coverage of 12.9 times in FY2019 (13.4 times in FY2018), NCA/TD of 45.6% (61.5% in FY2018) and DSCR of 7.6 times (against 8.2 times in FY2018).

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 but 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.

Credit challenges

High working capital intensity due to high inventory levels maintained and stretched receivables – On a consolidated basis, working capital intensity increased to 41.9% in FY2019 from 29.5% in FY018 owing to stretched debtors and high level of inventory being maintained by the Group. The increase in working capital requirement also resulted in an increase in working capital borrowings.

High customer-concentration risks – The Group faces customer-concentration risk as the majority of revenues (more than 60%) are contributed by a single customer. As far as the geographical concentration is concerned, the sales are highly skewed to the US.

Exposed to foreign currency fluctuation and volatility in raw material prices – The margins of the Group are vulnerable to raw material price fluctuation, which in turn affects 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 can impact the profitability – The Government of India (GoI) extends various incentives to encourage exporters. The Obeetee Group enjoys export incentives in the form of duty drawbacks and the MEIS, which supports 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's liquidity is adequate supported by cash and liquid investment of Rs. 47.7 crore as on March 31, 2019. It has minimal debt repayment obligations of Rs. 2.7 crore in FY2020 and limited capex commitments, which are likely to be comfortably met from the cash accruals. Further, the average working capital utilisation as a percentage of sanctioned limits has been around 80% for the 12 months leading up to August 2019. However, the Group reported negative free cash flows in FY2019 owing to capex and increased working capital requirements, which was funded by monetisation of liquid investments and increased working capital borrowings.

Rating sensitivities

Positive trigger – Enhanced profitability and improved working capital intensity resulting in healthy liquidity profile may trigger a rating upgrade.

Negative trigger – Decrease in revenue growth or cash flows, any major debt-funded capital expenditure, or stretch in the working capital cycle will be credit negatives.

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	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. For arriving at the rating, ICRA has taken a consolidated view of Obeetee Private Limited and Obeetee Textiles Private Limited given the close business, financial and managerial linkages among these

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.

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 Company Private Limited (rated [ICRA]A-(Negative)/[ICRA]A2+). The Group has a weaver base of over 25,000 spread across Mirzapur and Bhadohi.

OPL has five wholly-owned subsidiaries, three of which are into manufacturing and marketing of carpets. The other two are into 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)	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	160.6	214.0	484.8	552.9
PAT (Rs. crore)	17.4	38.9	30.4	40.1
OPBDITA/OI (%)	17.5%	25.7%	10.9%	12.1%
RoCE (%)	23.5%	38.7%	15.6%	15.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.2	0.4	0.5
Total Debt/OPBDITA (times)	0.3	0.2	1.1	1.7
Interest Coverage (times)	37.3	45.1	13.4	12.9
DSCR	11.2	13.2	8.2	7.6

Status of non-cooperation with previous CRA: CRISIL has revised its rating of CRISIL BBB/Stable/ CRISIL A3+ (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. [Rationale Link](#)

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Rating	FY2019		FY2018	FY2017	
					11-Dec-2019	1-Nov-2018	5-Oct-2018	21-Aug-2017	11-Aug-2016	
1	Fund based limits	Long/Short Term	27.45		[ICRA]A+ (Negative)/ [ICRA]A1	[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	2.50		[ICRA]A+ (Negative)/ [ICRA]A1	[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

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: OPL

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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