

**RATING RATIONALE**

**14 Jan 2020**

**Adoratex**

**Brickwork Ratings reaffirms the rating with a stable outlook and removes the suffix, issuer non-cooperation, for the Bank Loan facilities of Rs. 36.85 Crs of Adoratex.**

**Particulars:**

Facilities Availed	Previous Rated (Rs. Crs)	Present Amount (Rs. Crs)	Tenure	Previous Rating 25-Sep-2019#	Present Rating <sup>^</sup>
<b>Fund Based</b>					
CC	8.00	11.00	Long Term	BWR BB+ Stable (*Issuer Non-Cooperation)	BWR BB+ Stable Reaffirmation
Term Loan	5.08	-			
PC	14.00	16.85	Short Term	BWR A4+ (*Issuer Non-Cooperation)	BWR A4+ Reaffirmation
Post Shipment Credit	12.00	9.00			
<b>Total</b>	<b>39.08</b>	<b>36.85</b>	<b>INR.Thirty Six Crores and Eighty Five lakhs Only</b>		

\*Issuer did not cooperate, based on best available information.

# BWR issued Rating Not Reviewed Advisory on 16 April 19 for the previous rating.

<sup>^</sup> Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

Please refer to Annexure I for bank facilities details.

**RATING ACTION / OUTLOOK**

The reaffirmation in the ratings factor in Adoratex's (the firm) improved TNW, moderate debt protection metrics and improved overall gearing. The ratings continue to derive comfort from the extensive experience of the promoters in manufacturing and exports of carpets and strategic location of its manufacturing unit.

The ratings are, however, constrained on account of the small scale of operations, low profitability margins, exposure to foreign exchange risks and volatility in raw material prices, working capital intensive nature of the operations and highly competitive industry due to large numbers of players.

The ratings were moved to the Issuer Non-Cooperation category on 25 Sept 2019, as the information was not received from the company at that time to enable BWR to carry out a rating review on its due date.

**Rating Outlook: Stable**

BWR believes the **Adoratex's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Key Rating Strengths**

- **Long track record of promoters:** Over two-decades of promoters' experience in the carpet business has helped the firm to establish a strong brand image that culminates into repeat orders from overseas buyers.
- **The strategic location of the manufacturing unit:** Adoratex's manufacturing facility is located in Bhadohi, UP, which is one of the largest hubs in India for floor coverings and is a readily available market for these products. Bhadohi has numerous clusters of carpet manufacturing companies. Further, skilled labor is also available by virtue of it being situated in the carpet manufacturing cluster.
- **Moderate debt protection metrics and tangible net worth:** The firm's debt protection metrics were moderate with ISCR of 2.89x and DSCR of 2.51x in FY19. However, the adjusted tangible net worth has declined to Rs. 29.17 Crs in FY19 against Rs.32.94 Cr in FY18.

### **Key Rating Weaknesses**

- **Low Profitability Margins and decline in Sales:** OPM and NPM margins of the firm continue to remain low and stood at 8.05% and 2.82% in FY19 as against OPM and NPM of 8.72% and 3.22% respectively in FY 18 due to working capital intensive nature of business. Further, the total operating income of the company has witnessed a consistent decline since FY17 and has registered a negative CAGR of 11.64% for the year 17~19. In FY19, the same stood at Rs.118.42Crs ( export sales of Rs.25.58Crs) vis-a-vis Rs.123.83 Crs in FY18 (export sales of Rs.25.76Crs) registering a decline of 4.37% in FY19.
- **Intense competition:** The Indian carpet industry is characterized by numerous small players and is concentrated in the northern part of India, which includes Kashmir, Jaipur, Panipat, Agra and Bhadohi, Mirzapur contributing a significant portion of India's total carpet production. Low entry barriers and low investment requirements make the hand-knotted/tufted carpet industry highly lucrative and thus competitive. The firm also faces stiff competition from cheaper carpet imports from China in the same product segment.
- **Exposure to foreign exchange fluctuation and volatility in the raw material price:** The firm's revenue profile is concentrated overseas, whereas procurement is in the domestic market. Further, the firm's profitability profile is also exposed to volatility in foreign exchange on account of the absence of hedging policy. Any adverse movement in raw material prices of cotton and woolen yarn and foreign currency will have a negative impact on the firm's scale of operations and cash accruals. However, the price volatility effect is partially set off as the promoters are well experienced in their trade.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale). Further, while calculating the Tangible Net Worth (Analysed) advances given to the sister concerns are excluded from the Tangible Net Worth of the firm.

## RATING SENSITIVITIES

**Positive:** BWR may revise the ratings upward, in case the company maintains its momentum of growth in FY20, with adequate improvement in net worth, profitability margins and reduction in investment in group concerns, besides acceptable debt protection metrics and other metrics also favoring an upgrade.

**Negative:** BWR may revise the ratings downwards if the company's gearing deteriorates from the current levels, there is a decline in profitability margins and operating income estimated for FY20 is not achieved.

## LIQUIDITY: ADEQUATE

The company has cash and cash equivalents of Rs.1.20 Crs and cash accruals of Rs. 6.55 Cr in FY19 to meet the repayment obligation of Rs.0.90 Crs in FY20. The company is generating sufficient EBITDA of above Rs.9 Crs to bear the average interest obligation of Rs.3.44 Crs for FY 17-19. Reflecting a sound liquidity position of the company.

## About the Firm

Adorutex was formerly known as Rizwan Export House. The firm was incorporated in 2000 as a proprietorship concern by Mr.Rizwan Ansari. The firm manufactures and exports handmade rugs, carpets, and home furnishing products, made of wool, cotton, and leather. The firm is a 100 % export-oriented unit with the majority of exports to the US and Europe.

The firm has a production capacity of approx. 40,000 sq mt per month and a processing unit situated in Bhadohi, which is the hub of the Indian Carpet Industry and is responsible for processing, finishing, packaging, storage, and logistics all under one roof.

## Firm's Financial Performance

Key Financials			
Result Type	Units	31/Mar/2018	31/Mar/2019
		Audited	Audited
Total Operating Income	Rs.in Crs	123.83	118.42
OPBDIT	Rs.in Crs	10.80	9.53
PAT	Rs.in Crs	3.99	3.34
Tangible Net Worth	Rs.in Crs	82.06	84.50
Tangible Net worth (Analyzed)		32.94	29.17
TOL/TNW	Times	0.87	0.78

TOL/TNW (Analysed)		2.17	2.26
Current Ratio	Times	1.90	1.97

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY** - Bank loans of Rs.25CrS have been migrated to issuer non-cooperation and have been rated Crisil BB-/ A4+ by Crisil Ratings on 21 Dec 2018.

**RATING HISTORY for the past three years ( including ratings suspended/withdrawn)**

Facility	Present Rating (2020)			Rating History				
	Tenure	Amount (Rs. Crs)	Rating	25 Sep 2019	16 Apr 2019	15 Jan 2018	2017	2016
CC	Long Term	11.00	BWR BB+ Stable	BWR BB+ Stable *Issuer Non-Cooperation	Rating Not Reviewed Advisory	BWR BB+ Stable	NA	NA
PC	Short Term	16.85	BWR A4+	BWR A4+		BWR A4+	NA	NA
Post Shipment Credit		9.00		*Issuer Non-Cooperation				
Total		<b>36.85</b>	<b>Rupees Thirty-Six Crores and Eighty-Five lakhs Only</b>					

\*Issuer did not cooperate, based on best available information.

**Any other information: Not Applicable**

**Hyperlink/Reference to Applicable Criteria**

- 1 [General Criteria](#)
- 2 [Approach to Financial Ratios](#)
- 3 [Manufacturing Companies](#)
- 4 [Short Term Debt](#)

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**Adoratex**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Jammu and Kashmir Bank	Cash Credit	11.00	-	11.00
2		PC	-	16.85	16.85
3		Post Shipment Credit	-	9.00	9.00
<b>TOTAL</b>					<b>36.85</b>

**Total :Rs.Thirty Six Crores and Eighty Five lakhs Only**

**For print and digital media**

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#### **DISCLAIMER**

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