

## Rating Rationale

Adoratex



January 15, 2018

**Brickwork Ratings assigns ratings for the bank loan facilities of Adoratex.**

### Particulars

Facilities Availed	Amount to be Rated (In Crs)	Tenure	Rating Assigned
<b>Fund Based</b>			
CC	8.00	Long Term	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable Assings
Term Loan	5.08		
<b>Non Fund Based</b>			
PC	14.00	Short Term	BWR A4+ (Pronounced as A Four Plus)
Post Shipment Credit	12.00		
<b>Total amount to be rated</b>	<b>39.08</b>	<b>INR.Thirty Nine Crores and Eight lakhs Only</b>	

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

### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financial results of Adoratex up to FY17, publicly available information and information provided by the promoters.

The rating assigned draws comfort from the extensive experience of the promoter in manufacturing and exports of carpets, strategic location of the manufacturing unit, year on year increase in Operating Income of the firm, moderate leverage and moderate debt protection metrics.

The rating is, however, constrained on account of small scale of operations, low profitability margins, exposure to foreign exchange risk and volatility in raw material price, the working capital intensive nature of the business and highly competitive industry due to large number of players.



### **Key Rating Strengths**

- 1. Increase in Operating Income :** Total Operating Income have increased by 20.81 % i.e from INR 125.54 Cr in FY 16 to INR 151.66 Cr in FY17 due to increase in demand from overseas and domestic buyers .
- 2. 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 which culminates into repeat orders from overseas buyers.
- 3. Strategic location of manufacturing unit:** Adoratex's manufacturing facility is located in Badhoi , UP which is one of the largest hubs in India for floor coverings and is a readily available market for these products. Badhoi has numerous clusters of carpet manufacturing companies. Furthermore, skilled labour is also available by virtue of it being situated in the carpet manufacturing cluster.
- 4. Moderate Debt Protection Metrics:** The coverage indicators of the firm continue to remain moderate with ISCR and DSCR at 3.82X and 2.63 X respectively coupled with moderate gearing marked by TOL/TNW of 0.85X as on March 31,2017.

### **Key Rating Weaknesses**

- 1. Low Profitability Margins :** The OPM and NPM margins of the firm continues to remain low and stood at 9.22% and 4.39%, respectively in FY17 due to working capital intensive nature of business .
- 2. 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, Agra and Bhadohi – Mirzapur contributing significant portion of India's total carpet production. Low entry barriers and low investment requirement makes 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.
- 3. Exposure to foreign exchange fluctuation and volatility in raw material price:** The firm's revenue profile is concentrated on overseas market, which constitutes around 98% in FY17, whereas procurement is in the domestic market. Furthermore, the firm's profitability profile is also exposed to volatility in foreign exchange on account of absence of hedging policy.



- Any adverse movement in raw material prices of cotton and woollen 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.

### 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.

### About the Firm

Adoratex formerly known as Rizwan Export House is one of the group concern of Kasatex Home Furnishing Pvt limited (formerly known as Sheikh Bhullan and Sons). 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 majority of exports to the US and Europe.

The firm has production capacity of approx. 40000 sq mt per month and a processing unit situated in Bhadohi, which is the hub of Indian Carpet Industry and is responsible for processing, finishing, packaging, storage and logistics all under one roof.

### Firm's Financial Performance

Key Financials			
Crores	Limits	31/Mar/2016	31/Mar/2017
Result Type		Audited	Audited
Total Operating Income	Crs	125.54	151.66
OPBDIT	Crs	17.73	13.98
PAT	Crs	9.30	6.66
Tangible Net Worth	Crs	76.06	80.20
TOL/TNW	Times	0.95	0.85
Current Ratio	Times	1.94	1.96



**Rating History for the last three years: (including withdrawn/suspended ratings).**

Facilities Available	Rating Assigned(2018)			Rating History		
	Amount to be Rated (In Crs)	Tenure	Rating Assigned	2017	2016	2015
CC	8.00	Long Term	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable Assigns	NA	NA	NA
Term Loan	5.08					
PC	14.00	Short Term	BWR A4+ (Pronounced as Single A Four Plus)	NA	NA	NA
Post Shipment Credit	12.00					
<b>Total amount to be rated</b>	<b>39.08</b>	<b>INR.Thirty Nine Crores and Eight lakhs Only</b>				

**Status of non-cooperation with previous CRA (if applicable): Reason and comments: NIL**  
**Any other information: Not Applicable**

**Hyperlink/Reference to Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Manufacturing Sector](#)
- [Short Term Debt](#)

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### **Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

### **About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA& the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

### **DISCLAIMER**

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