



Rating Rationale

Agni

30 Oct 2018

Brickwork Ratings assigns 'BWR A4+' for the Bank Loan Facilities of Rs. 15.00 Crs of Agni ('Agni' or 'The Firm')

Particulars

Facility *	Amount (Rs. Crs)	Tenure	Rating^
Fund Based Export Packing Credit Foreign Bill Purchase	9.00 6.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus) Assigned
Total	15.00 (INR Fifteen Crore Only)		

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

*Annexure-I provides details of bank wise facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18 and publicly available information and information/clarifications provided by the management.

The rating draws strength from the promoter's long experience in the line of activity, moderate scale of operations and strategic location of the manufacturing unit. The rating, however, is constrained by weak credit risk profile, low profit margins and risks associated with the carpet industry.

Going forward the ability of the firm to increase its scale of operations and profit margins, improve its credit risk profile and efficiently manage exchange rate risk would remain the key rating sensitivities.

Key Rating drivers

Credit strengths

- **Experienced management**

The Firm benefits from the partners' long experience of more than two decades in the carpet business which helps them in obtaining repeat orders from the clients.

30 Oct 2018



- **Moderate Scale of Operations**

Firm benefits from the moderate scale of operations marked by revenues of Rs. 44.14 Crs in FY18 which helps it to take the advantages of scale of operations.

- **Strategic Location of Manufacturing Unit**

Agni's manufacturing facility is located at Bhadohi (UP), which is one of the largest hubs in India for floor coverings. It has numerous clusters of carpet manufacturing companies which also ensures availability of skilled labour.

- **Government Support**

Export industries in general and carpet industry in particular are highly supported by the Government. Carpet Export Promotion Council (CEPC) (apex body of exporters of handmade carpets) provides support for marketing, trade disputes and finance.

Credit Weaknesses

- **Weak Credit Risk Profile**

The credit risk profile of the firm is weak as marked by high gearing of 3.12 times for FY18, due to low capital support by the partners. Also, the coverage ratios are below benchmark as marked by ISCR of 1.35 times for FY18 due to low and declining profit margins.

- **Fragmented and Competitive Carpet Industry**

In India, carpet industry is characterized by numerous small players. The industry is concentrated in the northern part of India which includes Kashmir, Jaipur, Agra and Bhadohi contributing significant portion of the total production. Also, low entry barrier and low capital requirement makes the industry highly competitive.

- **Export Business Risk**

As the firm exports around 95% of its products it is exposed to exchange rate risk as it partially hedges its exposure and is also exposed to economic conditions in the importing countries.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes Agni'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 firm shows sustained improvement in revenues & profit margins and improves its credit risk profile. The rating outlook may be revised to 'Negative' if the firm is not able to increase its scale of operations and the credit risk profile of the firm does not improve.

About the Company

Agni is a partnership firm constituted in 1993 at Bhadohi (UP). It is engaged in manufacturing and export of



handmade rugs. It manufactures wide range of hand-knotted Indo-Nepalese, Silk, Viscose Jute and Cotton rugs. They export around 95% of their products, majorly to USA. Their major production center is at Bhadohi (UP). Raw materials for production is procured from local markets at Bhadohi. They produce 100% handmade carpets with total production capacity of around 400,00 sq meter per annum. The Firm is managed by Mr. Janak Mewawala who has total experience of around 25 years in the rugs manufacturing and export business.

Financial Performance

During FY18, The Firm has reported net sales of Rs. 44.14 Crs and PAT of Rs. 1.35 Crs as against net sales of Rs. 42.02 Crs and PAT of Rs. 2.35 Crs for FY17. Overall gearing was high at around 3.12 times for FY18. Current Ratio is <1 at 0.95 times for FY18 majorly due to high amount of trade payables. Coverage ratio is low as marked by the ISCR of 1.35 times for FY18.

Key financial indicators are furnished in Annexure I.

Rating History for the last three years:

Facility	Amount (Rs.Crs)	Tenure	Current Rating (Oct 2018)	Rating History		
				2017	2016	2015
Fund Based Export Packing Credit Foreign Bill Purchase	9.00 6.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus) Assigned	N.A	N.A	N.A
Total	15.00		INR Fifteen Crore Only			

Status of Non cooperation with other CRA : None

Any other information : Not applicable.

Agni
Annexure I
Key Financial Indicators

30 Oct 2018

Particulars		FY17 (Audited)	FY18 (Audited)
Net Sales	(Rs. Cr)	42.02	44.14
OPBDIT	(Rs. Cr)	2.58	1.79
PAT	(Rs. Cr)	2.35	1.35
Tangible Net Worth	(Rs. Cr)	5.47	5.85
Total Debt:TNW	(Times)	1.57	3.12
Current Ratio	(Times)	1.20	0.95

Hyperlink/Reference to applicable Criteria

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

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For print and digital media

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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 Investors queries can be sent to info@brickworkratings.com.



About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 13,22,500 Cr. In addition, BWR has rated over 7000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹62,000 Cr have been rated.

BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.