



## Rating Rationale

03-Aug-2021

### Kasatex Home Furnishing Pvt Ltd

Brickwork Ratings removes from issuer not cooperating category and reaffirms the ratings, with a stable outlook, for the Bank Loan facilities aggregating Rs.44.89 Crs of Kasatex Home Furnishing Pvt Ltd.

#### Particulars

Facilities	Amount (Rs.Crs.)		Tenure	Rating#	
	Previous	Present		Previous (01 Feb 2021)	Present
<b>Fund Based</b>	42.00	<b>40.89</b>	<b>Long Term</b>	BWR BB Stable Issuer not Cooperating*	<b>BWR BB Stable Reaffirmation</b>
<b>Non-Fund Based</b>	8.00	<b>4.00</b>	<b>Short Term</b>	BWR A4 Issuer not Cooperating*	<b>BWR A4 Reaffirmation</b>
Total	41.27**	<b>44.89<sup>^</sup></b>	<b>Rupees Forty-Four Crores and Eighty-Nine lakhs Only</b>		

<sup>^</sup>Maximum capping of WCDL and Non-Fund based limit is Rs.37Crs

\*\*Subject to a maximum cap of Rs.40.00 Crs of Fund Based and Overall capping is Rs.41.27Crs.

\*Issuer did not Cooperate. Based on the best available information.

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

@Details of Bank Loan facilities, consolidation or instruments are provided in Annexure

#### RATING ACTION / OUTLOOK

The removal from the issuer not cooperating category in the ratings of Kasatex Home Furnishing Pvt Ltd's (KHFPL or the company) factors in its cooperation in submitting relevant financial data and necessary updates. The reaffirmation in the ratings factor in improvements in tangible net worth (TNW) of the company and its moderate debt protection metrics. The ratings continue to derive comfort from the extensive experience of the promoters in manufacturing and exports of carpets and the strategic location of its manufacturing unit at Bhadohi (UP).

The ratings are, however, constrained on account of the consistent decline in the scale of operations, low profitability margins, exposure to foreign exchange fluctuation risks and volatility in raw material prices, besides being in an industry which is highly working capital intensive in nature and highly competitive due to large numbers of players in the unorganised sector. BWR also takes note of substantial receivables due to be received from Riztex (US based sister concern of the company).

#### Rating Outlook: Stable

BWR believes the KHFPL'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 DRIVERS

### Credit Strengths:-

- **Long track record of the promoters:** Mr. Rizwan Ansari, the promoter, has a long experience of over 2 decades in the carpet manufacturing industry and this has helped the company to establish a strong brand image that has culminated into repeat orders from overseas buyers.
- **The strategic location of the manufacturing unit:** KHFPL'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 units. Further, skilled labour is also available by virtue of it being situated in the carpet manufacturing cluster.
- **Moderate debt protection metrics:** ISCR and DSCR of the company have improved though the same continues to remain moderate despite improved EBITDA in FY21(Prov). ISCR and DSCR stood at 3.27x and 4.15x respectively in FY21 (Prov) as against ISCR and DSCR of 0.96x and 1.74x in FY20 and ISCR of 1.91x and DSCR of 1.16x in FY19

### Credit Risks:-

- **Substantial receivables and payables from sister concerns:** The company has a substantial amount of payables and receivables outstanding in the last two FYs. In FY20, receivables of Rs.20.59Cr, out of the total receivables of Rs.25.75Cr, from sister concern Riztex, USA, exceeded 6 months. The company also made substantial advances of Rs.16 Crs to sister concerns. Further, payables of Rs.30Cr out of the total payables: Rs.37.23Cr, is to various sister concerns. It is also observed that no provisioning is being done and the same are still outstanding in the books of the company.
- **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 risks and volatility in the raw material prices :** The company's revenue profile is concentrated overseas, whereas procurement is in the domestic market. Further, the company's profitability profile is also exposed to volatility in foreign exchange on account of the absence of a board-approved hedging policy. Any adverse movement in raw material prices of cotton and woollen yarn and foreign currency will have a negative impact on the company's scale of operations and cash accruals. However, the price volatility effect is partially set off as the promoters are well experienced in this trade.
- **Consistent decline in revenues:** TOI of the company has witnessed a consistent decline since FY18 and has registered a negative CAGR of 10.23% for the year 18~21. In FY20 the



same stood at Rs.75.08Cr ( export sales of Rs.28.17Cr) vis-a-vis Rs.113.04Cr in FY19 (export sales of Rs.38.25Cr) registering a decline of 27.63% in FY20. The decline in sales is due to trade-related disruptions due to COVID 19. However, with the lifting of lockdowns post FY20, the revenue has improved to Rs.96.30Cr (export revenue of Rs.41.98Cr) in FY21 (Prov).

#### **ANALYTICAL APPROACH - Standalone**

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

#### **RATING SENSITIVITIES**

**Positives:** The rating is sensitive to the achievement of projected revenues, improvement in profitability margins and receipts of advances given to sister companies besides other factors favouring an upgrade.

**Negatives:** An adverse rating action may be taken in case the firm’s revenues and margins deteriorate from the current levels.

#### **LIQUIDITY INDICATORS - Adequate**

The company has cash and cash equivalents of Rs.0.24Cr and cash accruals of Rs. 7.82Cr in FY21 and is projected to generate accruals of Rs.5.07Cr with less than Rs.1 Crs of annual repayment obligation. The company is generating sufficient average EBITDA to bear the interest obligation. Reflecting a sound liquidity position of the company.

#### **ABOUT THE ENTITY**

Kasatex Home Furnishing Pvt Ltd formerly known as Sheikh Bhullan Carpets Private Limited (SBCPL) was incorporated in 1995 in Bhadohi, UP, is a private limited company promoted by Mr Rizwan Ansari and his family members. SBCPL is engaged in the manufacturing and trading of hand-knotted carpets. The company outsources the manufacturing of hand-knotted carpets to weavers on a contractual basis. Post weaving the carpets are chemically washed and dried at the company's factory. All the products manufactured by the company are certified by Bureau Veritas Consumer Product Services. Directors of Kasatex Home Furnishing Private Limited are Mohammad Shamsuzzama Ansari, Meraj Ahamad Ansari, Mohammad Abu Hassan Ansari, Saira Bano, Noor Afsha, Mohammed Qamruzzama and Mohammad Rizwan Ansari.

#### **KEY FINANCIAL INDICATORS (Standalone)**

Key Parameters	Units	31/Mar/2019	31/Mar/2020
		Audited	Audited
Operating Revenue	Rs.Crs.	103.75	75.08
EBITDA	Rs.Crs.	9.15	3.93
PAT	Rs.Crs.	2.46	1.53
Tangible Net Worth	Rs.Crs.	57.38	58.91
Total Debt/Tangible Net Worth	Times	1.47	1.36
Current Ratio	Times	1.71	1.76

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY :NA**



ANY OTHER INFORMATION : Nil

**RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)**

Facilities	Current Rating (2021)			2021 (History)		2020		2019		2018			
Type	Tenure	Amount (Rs.Crs.)	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based	LT	40.89	BWR BB/Stable (Reaffirmed)	01Feb 2021	BB/Stable (Downgrade/Issuer Not-Cooperating)	17 Feb 2020	BB+/Stable (Reaffirmed)	NA		20 Sep 2018	BB+/Stable	16 Jan 2018	BB/Stable (Assigned)
Non Fund Based	ST	4.00	BWR A4 (Reaffirmed)	01Feb 2021	A4 (Downgrade/Issuer Not-Cooperating)	14Jan 2020	A4+ (Reaffirmed)	NA		20 Sep 2018	A4+	16 Jan 2018	A4+ (Assigned)
<b>Grand Total</b>		44.89^	<b>(Rs. Forty-Four Crores and Eighty-Nine lakhs Only)</b>										

^Maximum capping of WCDL and Non-Fund based limit is Rs.37Crs

**COMPLEXITY LEVELS OF THE INSTRUMENTS - Medium**

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).

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**Kasatex Home Furnishing Pvt Ltd**

**ANNEXURE-I**

**Details of Bank Facilities rated by BWR**

SL.No.	Name of the Bank/Lender	Type Of Facilities	Long Term(Rs.Crs.)	Short Term(Rs.Crs.)	Total(Rs.Crs.)
1	Bank of India	Cash Credit - Sanctioned	7.00	-	7.00
2		GECL - Sanctioned	7.89	-	<b>7.89</b>
3		Packing Credit (PC) - Sanctioned	-	16.00	<b>16.00</b>
4		Post Shipment - Sanctioned	-	16.00	<b>16.00</b>
5		LC - Sanctioned	-	4.00	<b>4.00</b>
<b>Total</b>					<b>44.89<sup>^</sup></b>
<b>TOTAL (Rupees Forty-Four Crores and Eighty-Nine lakhs Only)</b>					

<sup>^</sup>Maximum capping of WCDL and Non-Fund based limit is Rs.37Crs

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