



Press Release

Chinar Forge Limited

August 7, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	87.39 (Reduced from 89.26)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Revised from IVR BB+/ Stable (IVR double B plus with Stable outlook)	Simple
Total	87.39 (INR eighty- seven crore and thirty nine lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Chinar Forge Limited (CFL) considers steady improvement in its scale of operation and profits. Further, the rating continues to derive comfort from its long track record of operation under experienced promoters, moderate capital structure and satisfactory debt protection metrics, diversified and reputed customer base, and diversified product profile. However, these rating strengths remains constrained due to its moderate scale of operation, working capital Intensive nature of operation, susceptibility of its profitability to adverse fluctuations in prices of key raw material, and intense competition from unorganised players.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and profitability leading to improvement in cash accruals and debt protection metrics
- Improvement in the capital structure with improvement in the overall gearing ratio
- Effective working capital management leading to improvement in liquidity

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics



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- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing
- Moderation in the liquidity position with elongation in its operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Steady improvement in its scale of operation and profits

CFL has witnessed a steady improvement in its topline and profits consistently in the past few years. The company has witnessed a y-o-y growth of ~14% in FY21, ~33% in FY22 and ~17% in FY23 (provisional) in its revenue backed by its diversified product profile and generated a total operating income of ~Rs. 123.39 crore in FY22 (Rs. 92.98 crore in FY21) and ~Rs. 144.82 crore in FY23 (P). Consequently, PAT witnessed an increase of ~18.27% in FY21, 38.75% in FY22 and 53.31% in FY23 (Provisional). CFL has generated a PAT of Rs. 3.21 crore in FY21, Rs. 4.46 crore in FY22 and Rs. 6.83 crore in FY23 (Provisional). The EBITDA margin of the company witnessed an improvement from ~15.89% in FY22 to ~16.70% in FY23 (P) and PAT margin has witnessed an improvement from ~3.61% in FY22 to ~4.72% in FY23 (provisional). Further, the company has generated a topline of ~Rs. 42.00 crore in the Q1FY23.

Long track record of operation under experienced promoters

CFL has been engaged in the business of manufacturing carpets, rugs and tufted mats, since 2001. The promoters of the company have over three decades of experience in the field of manufacturing of the non-woven carpet industry. Mr. Sheetesh Vij along with other professionals looks after the day-to-day operation of the company and their extensive experience and industry knowledge has helped the company in establishing healthy relationship with both the consumers and the suppliers. Further, the promoters have supported the business operations through regular infusion of unsecured loans.

Moderate capital structure and satisfactory debt protection metrics

The capital structure of the company had remained moderate. The company's adjusted net worth as on March 31, 2023 (provisional) consisted of subordinated unsecured loans aggregating to Rs. 9.66 crore from the promoters which is considered as quasi equity. Considering the same, the company TNW including quasi equity stood at Rs.52.18 crore as on March 31, 2023 (P), which improved from Rs. 44.32 crore as on March 31, 2022, and



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Rs.29.15 crore as on March 31, 2021, driven by healthy accretion of profits to net worth. The total debt of the company has increased to Rs. 98.23 crore in FY23 (P) from Rs. 83.36 crore in FY22 primarily due to enhancement in the cash credit facility. The overall gearing including quasi equity remained moderate at 1.88 times as on March 31, 2022, and March 31, 2023 (P) respectively, since the improvement in net worth was offset by enhancement in the fund based working capital limits in FY23 (P). However, the TOL/TNW including quasi equity improved to 2.42 times as on March 31, 2023 (P), from 2.29 times as on March 31, 2022 (P). Furthermore, the debt protection metrics as witnessed by its interest coverage ratio stood comfortable and improved from 2.29 times in FY2022 to 2.41 times in FY2023 (P) and DSCR improved from 1.27 times as on March 31, 2022, to 1.39 times as on March 31, 2023 (P).

Diversified and reputed customer base

CFL is currently dealing with all the major players in the online sales platform and caters to some of the well reputed companies in the domestic corporate space. The company has a diversified customer portfolio which includes Reliance Retail Limited, Vishal Mega Mart Private Limited, Future Retail Limited etc. The company's reputed customer base reduces its counterparty credit risk to a large extent. Moreover, CFL's diversified customer base is spread across modern retail stores and network of dealers and distributors with top 10 customers contributing ~62.66% of revenue in FY2023 (Provisional).

Diversified product profile

CFL offers complete home furnishing products like carpets, floor mats, blankets, bed sheets, pillow covers, mattresses, comforts, backpacks, pet furnishing products etc. In past ten years, company has added considerable capacity and has grown from being a simple doormat & rug manufacturer to manufacturer of high-quality broadloom and tile form carpets using solution dyed nylon, polypropylene yarn, printed nylon cut pile and loop pile carpets.

Key Rating Weaknesses

Moderate scale of operation

The current scale of operations remained moderate notwithstanding an improvement witnessed over the past few years, which also results in moderate levels of profits and cash accruals on an absolute basis.



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Working capital intensive nature of operations

CFL's operations had been working capital intensive, marked by its high operating cycle of 230 and 205 days during FY22 and FY23 respectively. The average working capital utilization remained moderate at about ~84.75% during the past 12 months ended May 2023. Further, to support the sales growth in highly competitive market, the company has to extend higher credit terms to its customers.

Susceptibility of its profitability to adverse fluctuations in prices of key raw material prices.

The basic raw material for the company is poly propylene granules which is derivative of crude oil hence its price is determined by global crude oil price. Raw material accounted for ~65%-70% of its total cost of sales, hence the profitability of the company remains exposed to fluctuations in raw material prices.

Intense competition from unorganised players

Fabric and carpet manufacturing is a fragmented industry with a large number of players operating in this segment. A large number of small-scale units resulted in a fragmented nature of the industry, leading to intense competition among the players, which in turn reduces their pricing power.

Analytical Approach: Standalone

Applicable Criteria

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with expected sufficient accruals to meet the term debt repayment obligation in the period FY24-FY26. However, the average working capital utilisation remained high at 84.75% during last 12 months ending in May 2023, providing low liquidity buffer. The average non-fund-based utilisation remain comfortable at 53.62% during the last twelve months ended May 31, 2023.

About the Company

Chinar Forge Limited is a floor covering manufacturer and is a leading producer of yarn, area rugs, bathmats, non-woven carpets and Wall to Wall carpets. The promoters of the company



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have over three decades of experience in the field of manufacturing of non-woven carpet industry. Further, the company has diversified its product profile over the years and currently manufactures complete home solution products which includes carpets, floor mats, blankets, bed sheets, pillow covers, mattresses, comforts, backpacks, pet furnishing products etc.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31.03.2022	31.03.2023
	Audited	Provisional
Total Income	123.47	144.84
EBIDTA	19.61	24.19
PAT	4.46	6.83
Total Debt	83.36	98.23
Adjusted Tangible Net Worth	44.32	52.18
EBDITA Margin (%)	15.89	16.70
PAT Margin (%)	3.61	4.72
Overall Gearing Ratio (x) on Net Adjusted TNW	1.88	1.88
Interest Coverage Ratio (X)	2.29	2.41

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork continues to maintain the rating of Chinar Forge Limited in the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated June 5, 2023.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Current Rating	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					Sep 21, 2022	Apr 19, 2022		
1.	Term Loan	Long Term	13.26	IVR BBB-/Stable	IVR BB+/Stable	IVR B+ ISSUER NOT COOPERATING*	-	IVR BB-/Stable



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		Type	Amount outstanding (Rs. Crore)	Current Rating	Date(s) & Rating(s) assigned in 2022-23		Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
					Sep 21, 2022	Apr 19, 2022		
2.	GECL	Long Term	14.13	IVR BBB-/Stable	IVR BB+/Stable	-	-	-
3.	Cash Credit	Long Term	60.00	IVR BBB-/Stable	IVR BB+/Stable	IVR B+ ISSUER NOT COOPERATING*	-	IVR BB-/Stable

**Issuer did not cooperate; based on best available information*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	FY2025	5.21	IVR BBB-/ Stable
Term Loan 2	-	-	FY2030	5.49	IVR BBB-/ Stable
Term Loan 3	-	-	FY2027	1.10	IVR BBB-/ Stable
Term Loan 4	-	-	FY2034	1.46	IVR BBB-/ Stable
GECL 1	-	-	FY2027	5.50	IVR BBB-/ Stable
GECL 2	-	-	FY2026	6.08	IVR BBB-/ Stable
GECL 3	-	-	FY2028	2.55	IVR BBB-/ Stable
Cash Credit 1	-	-	-	52.50	IVR BBB-/ Stable
Cash Credit 2	-	-	-	7.50	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-cfl-aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.