



Press Release

Chinar Forge Limited

September 21, 2022

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	89.26 (enhanced from Rs. 79.21 crore)	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Revised from IVR B+ INC (IVR B plus Issuer Not Cooperating) and removed from Issuer Not Cooperating category	Simple
Total	89.26 (INR Eighty-nine crore and twenty- six lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics had moved the ratings of Chinar Forge Limited (CFL) into Issuer Not Cooperating category vide its press release dated April 19, 2022 due to non-submission of information required for detailed review of the company. However, the company has started cooperating and submitted required information. Consequently, Infomerics has removed the rating from 'ISSUER NOT COOPERATING' category and revised the ratings.

The revision in the rating assigned to the bank facilities of Chinar Forge Limited (CFL) considers steady improvement in its scale of operations and profitability, improvement in the capital structure and coverage indicators in FY21 and FY22 (provisional). Further, the ratings continue to derive comfort from its long track record of operations under experienced promoters, diversified & reputed customer base and diversified product profile. However, these rating strengths are partially offset by moderate scale of current operations, susceptibility of its profitability to adverse fluctuations in prices of key raw materials, intense competition from unorganised players, and working capital intensive nature of operations.



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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
- 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

Long track record of operations 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 non-woven carpet industry. Mr. Sheetej Vij along with other professionals looks after the day-to-day operations 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.

Steady improvement in its scale of operations and profitability

The topline and profitability of the company has improved consistently in the past few years with a y-o-y growth of ~14% in FY21 and ~31% in FY22 (provisional) backed by its diversified product profile. Consequently, PAT have witnessed an increase of ~18% in FY21 and 62% in FY22 (provisional). Improvement in profitability has also helped the company to enhance its cash accruals from Rs.7.98 crore in FY20 to Rs.8.73 crore in FY21 and Rs.10.58 crore in FY22 (provisional).



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Leveraged capital structure and moderate coverage indicators

The company's adjusted net worth as on March 31, 2022 (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 adjusted tangible net worth of the company stood at Rs.44.11 crore as on March 31, 2022 (provisional) compared with Rs. 36.15 crore as on March 31, 2021. Also, the overall gearing ratio on net adjusted TNW has improved to 1.89x as on March 31, 2022 (provisional) from 2.33x as on March 31, 2021, driven by accretion of profit to net worth and scheduled repayment of term debts, however it continues to remain leveraged. Further, total indebtedness of the company moderated to 2.49x as on March 31, 2022 (provisional) from 2.85x as on March 31, 2021. The debt protection metrics of the company improved as indicated by interest coverage ratio at 2.43x as on March 31, 2022 (provisional) (1.93x as on March 31, 2021); however, it continues to remain at moderate levels. Total debt/GCA stood at 7.88 years as on March 31, 2022 (provisional) (10.45 years as on March 31, 2021).

Diversified & 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 include Reliance Retail Limited, Vishal Mega Mart Private Limited, Future Retail Limited etc. The company's reputed customer base reduces its counterparty credit risk up 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 ~57.80% of revenue in FY2022 (Provisional).

Diversified product profile

Products offered by CFL includes interior furnishing products like floor covering, yarn, area rugs, bathmats, non-woven carpets and wall to wall carpets. 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. Further the company has diversified its business and has entered in the works contracts, renovation, auxiliary construction services and personal protective products like PPE Kits, N-95 face mask, surgical



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face mask. Some part of the products is sold under its own brand name while the remaining is customised as per the clients' requirement.

Key Rating Weaknesses

Moderate scale of current operations

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.

Working capital intensive nature of operations

CFL's operations had been working capital intensive, marked by its high operating cycle of 271 and 306 days during FY20 and FY21 respectively. However, the same has moderated to 239 days in FY22 (provisional) with reduction in average inventory and collection period. The average working capital utilization remained high at about ~90% during the past 12 months ended June 2022. 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 materials

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

The fabrics and carpets manufacturing is a fragmented industry with a large number of players operating in this segment. The company derives over ~55% - 80% of its revenues from the sale of fabrics, yarn and carpets. Presence of a large number of small-scale units has resulted in fragmented nature of the industry, leading to intense competition among the players, which in-turn reduces their pricing power.

Analytical Approach: Standalone



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Applicable Criteria

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The liquidity profile of CFL is expected to remain adequate in the near to medium term driven by sufficient cushion in its expected accruals as compared to debt repayment obligation FY23-25. However, the gearing ratio was moderately high 1.89 times as of March 31, 2022 (provisional). Moreover, its average bank limit utilisation remained high at ~90% in the last 12 months ended June 2022 indicating moderate liquidity buffer. The company has no major near term capex plan, which imparts comfort.

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 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 door mats, cushion, cover, bedsheets, yoga mat, folding bed, cloth bags, and PPE Kit etc.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31.03.2021	31.03.2022
	Audited	Provisional
Total Income	93.06	122.04
EBIDTA	20.40	20.14
PAT	3.21	5.22
Total Debt	91.20	83.37
Adjusted Tangible Net Worth	36.15	44.11
EBDITA Margin (%)	21.94	16.50
PAT Margin (%)	3.45	4.27
Overall Gearing Ratio (x) on Net Adjusted TNW	2.33	1.89

**Classification as per Infomerics' standards*



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Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 April 19, 2022	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 January 27, 2021
1.	Term Loan	Long Term	22.39	IVR BB+/Stable	IVR B+ ISSUER NOT COOPERATING*	-	IVR BB-/Stable
2.	Cash Credit	Long Term	50.50	IVR BB+/Stable	IVR B+ ISSUER NOT COOPERATING*	-	IVR BB-/Stable
3.	GECL	Long Term	16.37	IVR BB+/Stable	-	-	-

*Issuer did not cooperate; based on best available information

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.



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Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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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
Cash Credit 1	-	-	-	43.00	IVR BB+/ Stable
Cash Credit 2	-	-	-	7.50	IVR BB+/ Stable
Term Loan 1	-	-	FY30	5.54	IVR BB+/ Stable
Term Loan 2	-	-	FY25	7.10	IVR BB+/ Stable
Term Loan 3	-	-	FY34	2.19	IVR BB+/ Stable
Term Loan 4	-	-	FY34	4.31	IVR BB+/ Stable



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Term Loan 5	-	-	FY27	1.53	IVR BB+/ Stable
Term Loan 6	-	-	FY34	1.72	IVR BB+/ Stable
Guaranteed Emergency Credit Line 1	-	-	FY27	5.50	IVR BB+/ Stable
Guaranteed Emergency Credit Line 2	-	-	FY26	8.32	IVR BB+/ Stable
Guaranteed Emergency Credit Line 3	-	-	FY28	2.55	IVR BB+/ Stable

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

Annexure 3: [Facility wise lender details](#)

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.