



Press Release

Chinar Forge Limited (CFL)

January 27, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Fund Based Bank Facilities	79.21	IVR BB-/Stable Outlook (IVR Double B minus with Stable Outlook)	Assigned
	Total	79.21		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Chinar Forge Limited (CFL) derives comfort from its long track record of operations under experienced promoters, diversified & reputed customer base and diversified product profile. These rating strengths are partially offset by its modest scale of operations, vulnerability of profitability to crude oil prices, working capital intensive nature of operations leading to moderate financial risk profile marked by leveraged capital structure.

Rating Sensitivities

Upward factors

- Substantial & sustained improvement in revenues while maintaining EBITDA margin & debt protection metrics
- Improvement in the capital structure with improvement in overall gearing ratio to below 2.5x along with improvement in the debt protection metrics with interest coverage ratio over 2.5x
- Improvement in liquidity with improvement in average cash credit limit utilization and improvement in average collection period

Downward Factors

- Decline in revenue &/or profitability leading to moderation in debt protection metrics with interest coverage ratio gone below 1.5x
- Moderation in the capital structure with overall gearing ratio over 3.5x



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- Further strain on working capital cycle due to elongation of receivable period

Detailed Description of Key Rating Drivers

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. Presently, Mr. Sheetesh Vij along with other professionals looks after the business and their experience and industry knowledge has helped the company to build and maintain good business relationships. Further, the promoters have supported the business operations through regular infusion of unsecured loans.

- **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 with highly rated clients which reduce its counterparty credit risk up to a large extent. CFL's diversified customer base is spread across modern retail stores and network of dealers and distributors with top 10 customers contributing ~41% of revenue in FY2020.

- **Diversified product profile**

Products offered by CFL includes interior furnishing products like floor covering, yarn, area rugs, bath mats, 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 is diversifying its business and has recently entered in the works contracts, renovation, auxiliary construction services and personal protective products like PPE Kits, N-95 face mask, surgical face mask. The clientele of the company includes some of the well-established players in the industry. Some part of the products is sold



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under its own brand name while the remaining is customised as per the clients' requirement.

Key Rating Weaknesses

- **Modest scale of operations**

The topline of the company has remained modest and range bound within INR 70 crore to INR 90 crore in the past three fiscals buoyed by consistency in sales of interior designing products. Modest scale of operations restricts the financial flexibility of the company to an extent. However, though the scale of operations the company remained modest it has maintained a satisfactory operating margin over the past three years and generates satisfactory gross cash accruals which supports its credit risk profile. Till November 2020, the company has achieved a revenue of ~Rs.70 crore. Infomerics expects a growth in the scale of operations of the company in the near term.

- **Profitability remains vulnerable to crude oil prices**

The basic raw material for the company is PP 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 unorganized players**

The fabrics and carpets manufacturing is a fragmented industry with a large number of players operating in this segment. The company derives over ~95% of its revenues from the sale of Fabrics, yarn and carpets. A large number of small-scale units resulted in fragmented nature of the industry, leading to intense competition among the players, which in-turn reduces their pricing power.

- **Working capital intensive nature of operations**

The liquidity position remained tight due to elongation in its receivable days from 122 in FY19 to 196 in FY20 (A) which has stretched their operating cycle from 179 days in FY19 to 271 days in FY20 (A). The company has an average utilization of around 97% over a period of 12 months ended October, 2020 indicating a high working capital intensive nature of operations.

- **Moderate financial risk profile marked by leveraged capital structure**



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The financial risk profile of the company remained moderate marked by its leverage capital structure and moderate debt protection metrics. The overall gearing ratio stood high at 3.28x as on March 31,2020 (3.01x as on March 31,2019). However, the total indebtedness of the company remained moderate marked by TOL/TNW at 2.93x as on March 31,2020. The interest coverage ratio also remained moderate at 2.06x in FY20. However, the leverage ratio and debt protection metrics witnessed moderation in FY20 driven by rise in debt level due to fund its capacity enhancement capex.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The liquidity position of the company remained stretched due to its elongated receivable days. Further, the company has an average utilisation of ~97% over a period of 12 months ended October, 2020 indicating a high working capital intensive nature of operations. However, the company expects to generate healthy gross cash accruals in the range of ~Rs.10-12 crore as against its debt repayment obligations in the range of ~Rs.2-5 crore during FY21-23 which imparts comfort.

About the Company

Chinar Forge Limited is a floor covering manufacturer and is a leading producer of yarn, area rugs, bath mats, non-woven carpets and Wall to Wall carpets. Further, the company is diversifying its business and has recently entered in the works contracts, renovation, auxiliary construction services and healthcare products like PPE Kits, N-95 face mask, surgical face mask.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	91.83	81.47
EBITDA	15.11	17.87
PAT	3.56	2.72



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For the year ended* / As On	31-03-2019	31-03-2020
Total Debt	69.92	85.05
Adjusted Tangible Net worth	30.66	33.20
EBITDA Margin (%)	16.45	21.93
PAT Margin (%)	3.88	3.33
Overall Gearing Ratio (x)	3.01	3.28

*Classification as per Infomerics' standards

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 Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	27.71	IVR BB- /Stable Outlook	-	-	-
2.	Cash Credit	Long Term	51.50	IVR BB- /Stable Outlook	-	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.



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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
Rupee Term Loan	-	-	February' 2035	27.71	IVR BB-/Stable Outlook
Cash Credit	-	-	-	51.50	IVR BB-/Stable Outlook