

Press Release

Country Art And Craft LLP

August 21, 2018

Rating Assigned



| | |
|-------------------------------------|-----------------------------|
| Total Bank Facilities Rated* | Rs. 15.25 Cr. |
| Long Term Rating | ACUITE BB / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.15.25 crore bank facilities of Country Art And Craft LLP. The outlook is '**Stable**'.

The Rajasthan-based CACL was established in 2014 as a partnership firm, is engaged in manufacturing and export of wooden furniture products and handicraft items. The firm sells its products under the brand name 'Country Art'. CACL is promoted by Mr. Rahul Johari, Ms. Sulochana Devi Johari and has presence in the wooden furniture industry for over four decades. The firm deals in various furniture hardware & accessories including cane, bamboo, natural fiber & eco -friendly products.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Country Art and Craft LLP to arrive at this rating.

Key Rating Drivers

Strengths

• Average financial risk profile

The financial risk profile is average marked by average net worth and debt protection measures. The net worth of the firm is average at around Rs.15.34 crore as on 31 March, 2018 (Provisional) as against Rs.14.55 crore as on 31 March, 2017. CACL has followed a conservative financial policy as reflected by peak gearing of 1.17 times over the last three years through 2017-18. The gearing of the firm stood at 1.16 times as on March 31, 2018 (Provisional) as against 1.17 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.87 times as on 31 March, 2018 (Provisional) as against 4.12 times as on 31 March, 2017. Healthy operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 6.72 times in FY2018 (Provisional) and 14.83 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.51 times as on 31 March, 2018 (Provisional) as against 0.89 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 6.70 times for FY2018 (Provisional) as against 13.80 times in FY2017. Acuite believes that the financial risk profile of CACL will continue to remain average over the medium term on account of its improving scale of operations and conservative financial policy.

• Moderate order book position

CACL has unexecuted orders of Rs. 65.00 crore in hand as on 31 July, 2018, expected to be completed by December, 2018. Further, as informed by the management, CACL reported revenue of Rs. 25.00 crore during April, 2018 to July, 2018. Hence, the modest order book position provides moderate revenue visibility over the medium term

Weaknesses

• Uneven revenue trend

The revenue trend of CACL is uneven during the period FY2016 to FY2018. This is on account of fluctuation in the timber prices and change in the tax structure which has impacted the scale of operations of the company. The operating income stood at Rs.82.90 crore in FY2018 (Provisional) as against Rs.95.04 crore in FY2017 and Rs.102.88 crore in FY2016. Acuite believes that the ability of the company to maintain its revenue stream in such a highly competitive market and volatile raw

material prices will be key rating sensitivity.

• **Working capital intensive operations**

The operations are working capital intensive as reflected by the high gross current asset (GCA) days of 223 in FY2018 (Provisional) as against 192 in FY2017. Though the inventory levels are maintained at 33 days in FY2018 (Provisional) and 22 days in FY2017, the creditor and debtor levels remained high at 251 days and 138 days in FY2018 (Provisional) as against 226 days and 136 days in FY2017, respectively. Firm has a policy of extending clean credit of around 130 days to its customers resulting in high GCA Days.

• **Uneven profit margins**

The firm has reported EBITDA margin of 8.33 percent for FY2018 (Provisional) compared to 8.24 percent for FY2017 and 5.42 percent for FY2016. The uneven trend of profit margin is mainly due to fluctuations in raw material prices which could not be passed on to the customer. Further, the profitability margin is also susceptible to fluctuations in forex rates as the firm exports around 90 percent of its revenue to overseas markets. The company does not have adequate hedging mechanism in place.

Outlook: Stable

Acuite believes that CACL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in CACL's operating income or profitability and improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

| | Unit | FY18 (Provisional) | FY17 (Actual) | FY16 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 82.90 | 95.04 | 102.88 |
| EBITDA | Rs. Cr. | 6.90 | 7.84 | 5.58 |
| PAT | Rs. Cr. | 5.64 | 12.29 | 4.77 |
| EBITDA Margin | (%) | 8.33 | 8.24 | 5.42 |
| PAT Margin | (%) | 6.81 | 12.93 | 4.63 |
| ROCE | (%) | 22.54 | 56.50 | 42.30 |
| Total Debt/Tangible Net Worth | Times | 1.16 | 1.17 | 1.09 |
| PBDIT/Interest | Times | 6.72 | 14.83 | 37.11 |
| Total Debt/PBDIT | Times | 1.65 | 0.97 | 1.78 |
| Gross Current Assets (Days) | Days | 223 | 192 | 167 |

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|-------------------------------|
| Term loan | Not Applicable | Not Applicable | Not Applicable | 6.68 | ACUITE BB / Stable (Assigned) |
| Term loan | Not Applicable | Not Applicable | Not Applicable | 3.59 | ACUITE BB / Stable (Assigned) |
| Proposed | Not Applicable | Not Applicable | Not Applicable | 4.98 | ACUITE BB / Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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