

Rating Advisory

February 21, 2018 | Mumbai

Shobha Woollens Private Limited

Advisory as on February 21, 2018

This rating advisory is provided in relation to the rating of Shobha Woollens Private Limited

The key rating sensitivity factors for the rating include:

- Working capital management
- Capital expenditure (capex) plans and their funding
- Extent of capital withdrawn by the promoters

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Shobha Woollens Private Limited (SWPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If SWPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the group:

Kaka Carpet, set up in 1979 by Mr Yadavendra Roy, manufactures and exports hand-knotted and hand-tufted carpets. Its facility is at Bhadohi.

Kaka Overseas Limited, set up in 2006, manufactures hand-knotted and tufted carpets at its manufacturing facility in Bhadohi. Its registered office is in Gurgaon, Haryana.

Shobha Woollens Pvt Ltd, established in 1993, manufactures hand knotted and tufted carpets, and spins woollen yarn at its facility in Bhadohi. The company generates revenue from export to the US, Europe, the Middle, East and other international markets.

Please note: This advisory should not be construed as a rating reaffirmation.

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <http://www.crisil.com/ratings/highlightedpolicy.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL

Rating Rationale

January 12, 2017 | Mumbai

Shobha Woollens Private Limited

Long-term rating upgraded to 'CRISIL BB/Stable' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.12 Crore (Enhanced from Rs.10 Crore)
Long Term Rating	CRISIL BB/Stable (Upgraded from 'CRISIL BB-/Stable')
Short Term Rating	CRISIL A4+ (Reaffirmed)

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its ratings on the long term bank facilities of Shobha Woollens Private Limited (SWPL) to '**CRISIL BB/Stable**' from 'CRISIL BB-/Stable while reaffirming its short term ratings at 'CRISIL A4+'

The rating upgrade follows the change in CRISIL's analytical approach for the ratings on SWPL's bank facilities. The rating upgrade also reflects CRISIL's belief that the Kaka group's business risk profile would sustain the healthy momentum of revenue growth of 10%-15% supported by the initiation of the online sales from fiscal 2016; established and longstanding relationships; and healthy demand with its global customers in Europe, USA and Gulf countries. The cash accruals expected to be generated; against nil repayment obligations; would remain sufficient to fund the incremental working capital requirements thereby leading to the sustenance of the liquidity profile at adequate levels.

Analytical Approach

For arriving at the ratings, CRISIL has now combined the business and financial risk profiles of SWPL, Kaka Carpets and Kaka Overseas Ltd. The three entities, collectively referred to as the Kaka group, are in the same business, have the same promoters and management, and have significant operational linkages. CRISIL believes fungibility of funds between the entities will increase over the medium term to support the working capital requirement of the entire group.

Key Rating Drivers & Detailed Description

Strengths

* **Extensive experience of promoters, and locational advantage:** The Kaka group's partners have been in the carpet business for three decades. CRISIL believes their extensive experience will help the group scale up operations and maintain healthy business risk profile, over the medium term. The group is based in Bhadohi, Uttar Pradesh, one of the carpet-manufacturing hubs in India. Hence, the group has access to cheap and abundant supply of artisans and other skilled labourers required for weaving hand-made carpets.

* **Established relationships with customers and suppliers:** The group has established clientele and supplier network. It has access to abundant raw material and skilled labour. It procures semifinished/woven carpets and sells them to customers. It has longstanding relationships with key customers and an established clientele in Europe, the US, and the Middle East.

* **Healthy market position as an exporter of handmade carpets:** The group's operating income was Rs 383 crore in fiscal 2016. Revenue rose 27% over the four fiscals through March 2016 because of location in a carpet manufacturing hub of India. The revenue is likely to grow 10-15% on the back of longstanding presence in the industry and strong ties with global customers.

Weakness

* **Modest financial risk profile:** The financial risk profile remains modest because of leveraged capital structure due to large capital withdrawals in fiscal 2016. However, debt protection metrics are healthy due to facilities with low interest cost, such as packing credit limit. CRISIL believes the Kaka group's capital structure will improve over the medium with reduced capital withdrawals.

* **Low profitability:** The operating margin was less than 3% over the past five fiscals mainly on account of limited pricing flexibility with customers. The operating profitability will remain low on account of intense competition.

* **Susceptibility to volatility in raw material prices and fluctuations in forex:** Raw material cost accounts for 90% of the group's operating income. Its key raw materials are woollen yarn, cotton yarn, and synthetic yarn, the prices of which are volatile. Moreover, it derives its entire revenue from exports. It does not hedge its forex exposure, and hence, is susceptible to fluctuations in forex rates. CRISIL believes the Kaka group's operating margin will remain vulnerable to volatility in raw material prices and fluctuations in forex rates over the medium term.

Outlook: Stable

CRISIL believes the Kaka group will continue to benefit from its promoters' extensive experience in the carpet industry. The outlook may be revised to 'Positive' if revenue and profitability increase significantly, resulting in higher cash accrual, or if the group manages working capital requirement efficiently. The outlook may be revised to 'Negative' if the financial risk profile, particularly liquidity, weakens because of low cash accrual, or large working capital requirement, or sizeable, debt-funded capital expenditure.

About the Group

Kaka Carpet, set up in 1979 by Mr Yadavendra Roy, manufactures and exports hand-knotted and hand-tufted carpets. Its facility is at Bhadohi.

Kaka Overseas Limited, set up in 2006, manufactures hand-knotted and tufted carpets at its manufacturing facility in Bhadohi. Its registered office is in Gurgaon, Haryana.

Shobha Woollens Pvt Ltd, established in 1993, manufactures hand knotted and tufted carpets, and spins woollen yarn at its facility in Bhadohi. The company generates revenue from export to the US, Europe, the Middle, East and other international markets.

SWPL reported profit after tax (PAT) of Rs 1.80 Crore on net sales of Rs 107.58 Crore for fiscal 2016, vis-a-vis Rs 1.45 Crore and Rs 96.63 Crore, respectively in fiscal 2015.

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)
NA	Foreign Bill Purchase	NA	NA	NA	5.35
NA	Export Packing Credit	NA	NA	NA	3.75
NA	Export Packing Credit	NA	NA	NA	2.0
NA	Standby Line of Credit	NA	NA	NA	0.9

1 crore = 10 million

Annexure - Rating History for last 3 Years

Instrument	Current			2017 (History)		2016		2015		2014
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date
Fund-based Bank Facilities	LT/S T	12	CRISIL BB/Stable/ CRISIL A4+		No Rating Change		No Rating Change	11-08-15	CRISIL BB- /Stable/ CRISIL A4+	
Non Fund-based Bank Facilities	LT/S T		No Rating Change		No Rating Change		No Rating Change	11-08-15	CRISIL A4+	

Annexure - Details of various bank facilities

Current facilities			Previous facilities	
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)
Export Packing Credit	3.75	CRISIL A4+	Export Packing Credit	1.5
Export Packing Credit	2	CRISIL BB/Stable	Foreign Bill Purchase	3
Foreign Bill Purchase	5.35	CRISIL A4+	Import Letter of Credit Limit	0.3
Standby Line of Credit	0.9	CRISIL BB/Stable	Proposed Long Term Bank Loan Facility	4.3
--	0	--	Standby Line of Credit	0.9
Total	12	--	Total	10

1 crore = 10 million

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Criteria for rating Short-Term Debt \(including Commercial Paper\)](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service
<p>Tanuja Abhinandan Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 tanuja.abhinandan@crisil.com</p> <p>Jyoti Parmar Media Relations CRISIL Limited D: +91 22 3342 1835 B: +91 22 3342 3000 jyoti.parmar@crisil.com</p>	<p>Aditya Sarda Director - CRISIL Ratings CRISIL Limited B:+91 124 672 2000 aditya.sarda@crisil.com</p> <p>Siddharth Maheshwari Associate Director - CRISIL Ratings CRISIL Limited D:+91 124 672 2189 siddharth.maheshwari@crisil.com</p> <p>Saima Khan Rating Associate - CRISIL Ratings CRISIL Limited D:+91 12 4672 2130 Saima.Khan@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1311</p> <p>For a copy of Rationales / Ratings CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites, portals etc.

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Ratings

CRISIL Ratings is part of CRISIL Limited ("CRISIL"). We pioneered the concept of credit rating in India in 1987. CRISIL is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI"). With a tradition of independence, analytical rigour and innovation, CRISIL sets the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 24,500 large and mid-scale corporates and financial institutions. CRISIL has also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and microfinance institutions. We also pioneered a globally unique rating service for Micro, Small and Medium Enterprises (MSMEs) and significantly extended the accessibility to rating services to a wider market. Over 95,000 MSMEs have been rated by us.

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

Last updated: April 2016

DISCLAIMER

This disclaimer forms part of and applies to each credit rating report and/or credit rating rationale that we provide (each a "Report"). For the avoidance of doubt, the term "Report" includes the information, ratings and other content forming part of the Report. The Report is intended for the jurisdiction of India only. This Report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this Report does not create a client relationship between CRISIL and the user.

We are not aware that any user intends to rely on the Report or of the manner in which a user intends to use the Report. In preparing our Report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the Report is not intended to and does not constitute an investment advice. The Report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind or otherwise enter into any deal or transaction with the entity to which the Report pertains. The Report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Rating are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities / instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL assumes no obligation to update its opinions following publication in any form or format although CRISIL may disseminate its opinions and analysis. CRISIL rating contained in the Report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the Report should rely on their own judgment and take their own professional advice before acting on the Report in any way.

Neither CRISIL nor its affiliates, third party providers, as well as their directors, officers, shareholders, employees or agents (collectively, "CRISIL Parties") guarantee the

accuracy, completeness or adequacy of the Report, and no CRISIL Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Report. EACH CRISIL PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. CRISIL's public ratings and analysis as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any) are made available on its web sites, www.crisil.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee – more details about CRISIL ratings are available here: www.crisilratings.com.

CRISIL and its affiliates do not act as a fiduciary. While CRISIL has obtained information from sources it believes to be reliable, CRISIL does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and / or relies in its Reports. CRISIL keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of CRISIL may have information that is not available to other CRISIL business units. CRISIL has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL has in place a ratings code of conduct and policies for analytical firewalls and for managing conflict of interest. For details please refer to: <http://www.crisil.com/ratings/highlightedpolicy.html>

CRISIL's rating criteria are generally available without charge to the public on the CRISIL public web site, www.crisil.com. For latest rating information on any instrument of any company rated by CRISIL you may contact CRISIL RATING DESK at CRISILratingdesk@crisil.com, or at (0091) 1800 267 1301.

This Report should not be reproduced or redistributed to any other person or in any form without a prior written consent of CRISIL.

All rights reserved @ CRISIL