Raj Overseas

January 31, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	3.10	-	-
Long Term - Fund Based TL	7.37	10.00	[ICRA]A- (Stable); Reaffirmed
Short Term - Fund Based	56.00	80.00	[ICRA]A2+; Reaffirmed
Long Term - Unallocated	26.53	-	-
Short Term - Non Fund Based	7.00	10.00	[ICRA]A2+; Reaffirmed
Total	**100.00**	**100.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed its long-term rating of [ICRA]A- (pronounced ICRA A minus) and short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) on the Rs. 100.00-crore bank facilities of Raj Overseas[1]. The outlook on the long-term rating is Stable.

Rationale

ICRA's ratings reaffirmation take into account the healthy growth of ~21% in the operating income in FY2018 driven by healthy volumetric sales growth of carpets and dhurries and increase in carpet sales realisation. The ratings also take into account the moderation in operating margins witnessed by the firm in FY2018 owing to increase in input costs and decline in fiscal incentives provided by the government. Furthermore, the expansion of the product portfolio offered by the company with addition of value accretive products such as digitally printed carpet and grass carpet are expected to accelerate the top-line in near to medium term. However, the stabilisation of these new products in terms of sales generation is yet to be seen. The ratings also take into account the favourable financial profile with comfortable capital structure and moderate debt-coverage indicators. The ratings continue to take into account the long experience of the promoters, established track record of the company in hand tufted carpet manufacturing business and healthy relationships with the suppliers and customers. The firm continues to get benefits of its backward integration into woollen spinning through group entities and job-worker base at the sister concern, which ensures easy availability of raw material and labour.

The ratings continue to remain constrained on account of high customer concentration and geographical-concentration risks with top ten customers contributing almost 72% of the revenues and majority of sales made to the USA. ICRA notes that the fiscal incentives in terms of duty drawback and duty scrip licenses (Merchandise Exports from India Scheme or MEIS) on exports support the firm's profitability and any downward revision in the same may adversely impact the margins. Further, the profitability remains susceptible to fluctuations in raw material prices, which may exert pressure on its profitability and debt-protection metrics. The intense competition from organised as well as unorganised players limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins. Being a partnership firm, the concern is also exposed to the inherent risks such as withdrawal of capital etc.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes that Raj Overseas will continue to benefit from the established track record of operations in the carpet manufacturing business, along with its comfortable capital structure and modest coverage indicators will support its credit profile. The outlook may be revised to Positive if substantial growth in profitability and the margins on a consistent basis strengthens the company's financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected because of a decline in profitability or more than expected capital withdrawal, or if debt-funded capital expenditure results in deterioration of coverage indicators or stretch in the working-capital cycle weakens liquidity.

Key rating drivers

Credit strengths

Well-experienced management and long track record of operations – The partners of the concern have been involved in the business of manufacturing hand tufted carpets since pre-independence era. They have established relations with the customers and suppliers, which help in managing the business efficiently.

Backward integration of the Group into woollen spinning helps in better quality control as well as availability - The firm continues to get benefits of backward integration into woollen spinning through group entities and job-worker base at the sister concerns, which ensures easy availability of raw material and labour.

Addition of value accretive products - The company has been adding capacity on a continuous basis based on the demand of the distribution network. The company added new products to its product portfolio with the launch of products such as digitally printed carpet and grass carpet.

Favourable financial profile with comfortable capital structure – The company's financial profile remained comfortable with low gearing of 0.44 times as on March 31, 2018, and comfortable coverage indicators as reflected by interest coverage ratio of 25.54 times, NCA/TD of 28% and DSCR of 19.28 times. Also, the firm reported robust top-line growth driven mainly by healthy volumetric growth in FY2018.

Credit challenges

Regulatory changes related to fiscal incentives (downward revision) could the profitability – ICRA expects any downward revision in the rates of duty drawback or duty scrips of MEIS would likely affect the profitability margins of Raj Overseas as witnessed in FY2018 after the decline in the duty-drawback rate by the Government of India.

Customer and geographical-concentration risks are high – The firm faces customer-concentration risk with top ten customers contributing almost 72% of the revenues. As far as the geographical concentration is concerned, the sales are highly skewed to the US.

Risks inherent in a partnership firm - Given Raj Overseas' constitution as a partnership firm, it is exposed to specific risks like the possibility of withdrawal of capital by the partners as witnessed in the past few years and the risk of dissolution, etc.

Exposed to foreign currency fluctuation and volatility in raw material prices – The concern is exposed to fluctuations in raw material prices (~50-55% of cost of production), i.e. woollen yarn and cotton yarn. Any major price escalation would affect the profitability owing to intense competition and the inability to pass on the raw material price escalation to customers.

Intense competition – The company faces stiff competition from other players in the industry which limits its pricing flexibility and bargaining power with customers, thereby putting pressure on its revenues and margins.

Liquidity Position:

The liquidity position of the company remains satisfactory. However, the withdrawal of capital from the business in the three consecutive years along with internal accrual funded capex resulted into moderation in the liquidity profile and exerted pressure on the free cash flows.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Raj Overseas was established in 1939 by Mr. Rajeshwar Nath and Mr. Vishwa Nath to manufacture woollen yarn and woollen carpet. At present, Mr. Deepak Raj Nath, Mr. Anil Nath and Mr. Ajay Nath are looking after the affairs of the firm. The concern started as a hand tufted carpet manufacturing unit which began exporting the carpets and other woollen made-ups to overseas customers in 1995. Gradually, exports become the main revenue driver of the Group. The firm has two hand tufted carpet manufacturing units in Panipat, Haryana. It primarily exports various kind of woollen hand tufted carpet, bath mat, and durries, pillows, poufs and woven rugs. The customer base comprises various retail chains, home furnishing players and buying houses based in the United States, Germany, Spain, and other Eastern European countries.

In FY2018, the company reported a net profit of Rs. 45.45 crore on an operating income (OI) of Rs. 476.49 crore compared with a net profit of Rs. 43.64 crore on an OI of Rs. 393.58 crore in the previous year.

Key financial indicators

	FY2017	FY2018
Operating Income (Rs. crore)	393.58	476.49
PAT (Rs. crore)	43.64	45.45
OPBDIT/OI (%)	18.28%	15.53%
RoCE (%)	37.88%	31.65%
Total Debt/TNW (times)	0.39	0.44
Total Debt/OPBDIT (times)	0.85	1.00
Interest Coverage (times)	40.40	25.54

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 -
1	Term Loans	Long Term	10.00	3.83	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	FBP/FBD/FBN	Short Term	80.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
3	Letter of Credit	Short Term	10.00		[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2016	NA	FY2020	10.00	[ICRA]A- (Stable)
NA	FBP/FBD/FBN	NA	NA	NA	80.00	[ICRA]A2+
NA	Letter of Credit	NA	NA	NA	10.00	[ICRA]A2+

Source: Raj Overseas

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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