September 22, 2022

Yati Overseas Private Limited: [ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short Term – Fund Based	75.00	[ICRA]A2+; assigned
Short Term – Non-fund Based	5.00	[ICRA]A2+; assigned
Total	**80.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating is based on the consolidated view of the credit profiles of Raj Overseas (the flagship company of the Group) and Yati Overseas Private Limited (YOPL), referred to as the Raj Group, as there is strong management, operational and financial linkages between the two entities including cash flow fungibility through promoters. Also, both the entities are in the same line of business.

The rating takes into account the extensive experience of the promoters of the Raj Group, established track record of Raj Overseas in hand-tufted carpet manufacturing and home furnishing business and its healthy relationships with suppliers and customers. The Group's financial profile remained comfortable with low gearing and comfortable debt coverage indicators. The Group continues to benefit from its backward integration into woollen spinning through other Group entities and job-worker base at the sister concern, which ensures easy availability of raw materials and labour. Besides, the Group has a reputed clientele.

However, the rating remains constrained by the high working capital intensity of the Group. The rating also considers the high customer and geographical concentration risks with the top customers contributing more than 50% to the revenues with sales remaining skewed towards a single country, namely the US. ICRA also notes that any downward revision in the financial incentives on exports may adversely impact the profit margin. Further, the Group remains susceptible to the fluctuations in raw material prices, which may exert pressure on its profitability and debt protection metrics. Further, ICRA considers the risks inherent in a partnership firm (Raj Overseas) like the possibility of withdrawal of capital by the partners, as witnessed in the past few years and the risk of dissolution, etc.

Key rating drivers and their description

Credit strengths

Experienced management and long track record of operations – The promoter family members of the Group have been involved in the business of manufacturing hand-tufted carpets since the pre-independence era. They have established relationship with customers and suppliers, which help in managing the business efficiently.

Strong operational and financial linkages with the Group entities – The Group continues to get benefits of backward integration into woollen spinning through other Group entities and job-worker base at the sister concerns, which ensures easy availability of raw material and labour.

Comfortable capitalisation and coverage indicators – The Group's financial profile remained comfortable with low gearing of 0.5 times as on March 31, 2022 and comfortable coverage indicators, as reflected by an interest coverage ratio of 14.6 times and DSCR of 5.0 times in FY2022, on a provisional basis.

Reputed customer profile – The top customers of the Group include reputed names like H M Hennes, Zara Home, Home Goods, Williams Sonoma among others.

Credit challenges

High customer and geographical concentration risks – The Group faces customer concentration risk with the top three customers contributing more than 50% to the revenues. Besides, its sales are highly skewed to the US and Singapore.

High working capital intensity – The Group's working capital requirements remain on the higher side at 37.1% in FY2022, which is also attributed by delays in receipt of export incentives and tax refunds**.**

Exposed to foreign currency fluctuation and volatility in raw material prices – As exports account for a significant portion of the turnover, the Group remains exposed to the foreign currency fluctuation risks to the extent of the unhedged exposure. Further, any major raw material price escalation would affect the profitability owing to intense competition and the inability of the Group to pass on the raw material price hike to its customers.

Risks associated with the government regulations and policies – The Government of India (GoI) extends various incentives to encourage exporters. The Group enjoys export incentives in the form of duty drawbacks and licence sale, which supports its operating profit margins. Thus, any change in incentives extended by the GoI to exporters or in the regulatory policies of importing countries can adversely impact the Group's profitability and cash flows.

Risks inherent in 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.

Liquidity position: Adequate

The liquidity position of the Group is adequate with healthy cash accruals, nil term loan repayments and limited capex over the medium term. The company's reliance on working capital borrowings has remained stable at an average utilisation of 85% during the last 12 months period ending in May 2022. While the capital withdrawals were high in FY2021, the same has moderated to the earlier levels in FY2022 and are unlikely to increase significantly, going forward. The Group's ability to effectively manage its working capital cycle and timely infusion of funds by the promoters will be key determinants of its liquidity position. The Group's liquidity would remain exposed to the risk of capital withdrawal, given the partnership nature of the firm (Raj Overseas).

Rating Sensitivities

Positive factors – The rating may be upgraded if the Group's scale of operations and profitability increase significantly on a sustained basis, leading to improved liquidity.

Negative factors – The rating may be downgraded if the Group witnesses a sharp decline in its scale of operations and profitability, leading to a deterioration in debt coverage metrics and a stretch in the liquidity position on a sustained basis. Large capital withdrawals adversely impacting the net worth and the liquidity of the Group on a sustained basis could also result in a rating downgrade. Specific credit metric that could result in rating downgrade includes TOL/TNW of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Fabric Making) Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation; while arriving at the ratings, ICRA has taken a consolidated view of the credit profiles of Raj Overseas and Yati Overseas Private Limited (YOPL), referred to as the Raj Group, as there is strong management, operational and financial linkages between the two entities including cash flow fungibility through promoters. The details of consolidation are there in Annexure 2

About the company – Yati Overseas Private Limited

YOPL was incorporated in 2001 to cater to the demand of buyers of home and textile items outside India. Sh. Ajay Nath and Sh. Sumeet Nath were the Directors at the time of incorporation. The company has one manufacturing unit in Panipat, Haryana. Its product profile includes carpets, dhurries, bath rugs, cushions, pillow covers, poufs, mats etc.
Post the family settlement in FY2021, businesses of Williams Sonoma Singapore Pte. Ltd. and Home Goods Inc. USA were shifted to Yati Overseas Private Limited from Raj Overseas.

About the group – Raj Overseas and YOPL

Raj Overseas is a flagship entity of the Raj Group, based in Panipat, Haryana. It was established in 1939 by Late Rajeshwar Nath and Late Vishwa Nath to manufacture woollen yarn and woollen carpet. At present, the operations are being looked after by the second and third generation family members. The promoters have five other Group concerns involved in spinning, weaving and printing activities. All the other Group entities support the Raj Group in terms of job-work processing of tufted carpet and supplying of woollen and cotton yarn to Raj Overseas. YOPL mainly procures finished goods from Raj Overseas on arm's length basis for its export orders. The Raj Group primarily exports various kinds of woollen hand-tufted carpets, bathmats, and durries, pillows, poufs and woven rugs. The customer base comprises various retail chains, home furnishing players and buying houses based in the US, Germany, Spain, and other eastern European countries.

Key financial indicators

	Yati Overseas Private Limited (Standalone)		Raj Group (Consolidated)	
	FY2021	FY2022*	FY2021	FY2022*
Operating income (Rs. crore)	114.4	281.7	838.4	769.2
PAT (Rs. crore)	7.9	19.3	52.7	52.2
OPBDIT/OI	8.0%	9.0%	8.4%	9.8%
PAT/OI	6.9%	6.8%	6.3%	6.8%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	1.2	0.8
Total debt/OPBDIT (times)	2.6	1.8	1.9	1.7
Interest coverage (times)	11.1	12.5	16.7	14.6

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*
Source: Raj Group; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2023)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on Aug 31, 2022 (Rs. crore)</th><th>Date and Rating in</th><th colspan="3">Date & Rating</th></tr>
<tr><th>Sep 22, 2022</th><th>FY2022
-</th><th>FY2021
-</th><th>FY2020
-</th></tr>
<tr><td>1</td><td>Fund based – Working Capital Facilities</td><td>Short-term</td><td>75.00</td><td>NA</td><td>[ICRA]A2+</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Non-Fund based – Working Capital Facilities</td><td>Short-term</td><td>5.00</td><td>NA</td><td>[ICRA]A2+</td><td>-</td><td>-</td><td>-</td></tr>
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Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based	Simple
Short-term non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term Fund based – Export credit facilities	NA	NA	NA	50.00	[ICRA]A2+
NA	Short-term Fund based – Export credit facilities	NA	NA	NA	25.00	[ICRA]A2+
NA	Short-term non fund based – LER Limit (Forward cover)	NA	NA	NA	5.00	[ICRA]A2+

Source: *YOPL*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Raj Overseas	100%	Full Consolidation
Yati Overseas Private Limited (YOPL)	100%	Full Consolidation

Source: *Raj Group; *Ownership held by same promoters in both the entities*

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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