December 29, 2023

Yati Overseas Private Limited: Rating downgraded to [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-based – Pre and Post Shipment Financing	75.00	75.00	[ICRA]A2; downgraded from [ICRA]A2+
Short-term Non-fund based – Loan Equivalent Risk	5.00	5.00	[ICRA]A2; downgraded from [ICRA]A2+
Total	**80.00**	**80.00**	

**Instrument details are provided in Annexure-1*

Rationale

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, to arrive at the rating, as there are strong management, operational and financial linkages between the two entities including cash flow fungibility through promoters. Both the entities are in the same line of business.

The rating downgrade factors in the moderation in scale of the Raj Group in the last two years due to muted demand of home textile products in the key export markets (the US and Europe). Additionally, a consistent decline in the Group's profitability on account of high costs amid discounted sales prices contributed to the rating action. As per ICRA's estimates, a similar performance with a marginal improvement in the profit margin and stable revenue are expected in FY2024 in the absence of any pickup in export demand. ICRA also notes that despite a weak performance in FY2023, there were large capital withdrawals by the promoters to support other businesses, which resulted in negative cash accruals. Additionally, the Raj Group has provided guarantee toward large term loans of a related entity. 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 and sales remaining skewed towards the US. Further, the Group remains susceptible to the fluctuations in raw material prices and foreign exchange rates, which may exert pressure on its profitability and debt protection metrics.

The rating, however, continues to derive strength from 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, though it moderated significantly in FY2023. The Group continues to benefit from its backward integration into woollen spinning through other Group entities and the job worker base at the sister concern, which ensures easy availability of raw materials and labour. Besides, the Group has a reputed clientele.

Key rating drivers and their description

Credit strengths

Experienced management and long track record of operations – The promoter family members of the Raj 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 ensure easy availability of raw material and labour.

Comfortable capitalisation and debt coverage indicators – The Group's financial profile, though moderated significantly in terms of profitability, remained comfortable with a low gearing of 0.8 times as on March 31, 2023 and comfortable debt coverage indicators, as reflected by an interest coverage ratio of 3.0 times and DSCR of 2.8 times in FY2023. However, Total debt/OPBDITA deteriorated to 6.1 times as on March 31, 2023 from 2.6 times as on March 31, 2022 on account of a decline in the Group's profitability and an increased debt.

Reputed customer profile – The top customers of the Group include reputed names like H M Hennes, Zara Home, Home Goods, Williams Sonoma, among others, which support business continuity. Also, the risks associated with delay or non-receipt of payments is mitigated to an extent.

Credit challenges

Exposed to 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. Any adverse impact on demand from these markets would significantly affect the Group's business.

High working capital intensity – The Group's working capital intensity increased further to more than 44% in FY2023, which can be attributed to longer inventory and receivable period mainly on account of a slowdown in the market, resulting in competition.

Exposed to foreign currency fluctuation and volatility in raw material prices – As exports account for a significant portion of the turnover (more than 90%), 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 support 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. Also, large advances to other Group companies out of the funds withdrawn from Raj Overseas and a corporate guarantee extended towards term loan of another entity remain key credit challenges.

Liquidity Position – Adequate

The liquidity position of the Group is adequate with satisfactory cash accruals, nil term loan repayments and limited capex over the medium term. The Group is likely to generate cash flow from operations of more than Rs. 15.00 crore in FY2024 and subsequent years, which would comfortably cover its liabilities. However, due to a slowdown in the market and lower profitability as well as cash accruals, the company's reliance on working capital borrowings has increased compared to the past years, and the average utilisation stood at 90% during the last 12-months period ending in September 2023. Nevertheless, ICRA notes that the Raj Group only uses the export credit facilities, which are backed by orders from reputed clients, thereby reducing receivable risks. While the capital withdrawals and investments in Group companies were high in FY2023, the same are expected to moderate, going forward. However, the Group's liquidity would remain exposed to the risk of capital withdrawal, given the partnership nature of the firm (Raj Overseas) and investments in Group entities. 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.

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 and debt coverage metrics.

Negative factors – The rating may be downgraded if the Group witnesses a sharp decline in its scale of operations and profitability, resulting in a deterioration in debt coverage metrics and a stretch in the liquidity position on a sustained basis. Large capital withdrawals/advances to Group entities adversely impacting 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]
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, referred to as the Raj Group, as there are 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 the buyers of home and textile items outside India. Mr. Ajay Nath and Mr. 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. US were shifted to YOPL 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, durries, pillows, poufs and woven rugs. The customer base comprises various retail chains, home furnishing players and buying houses based in the US, Germany, Singapore, and other eastern European countries.

Key financial indicators (audited)

	Yati Overseas Private Limited (Standalone)		Raj Group (Consolidated)	
	FY2022	FY2023	FY2022	FY2023
Operating income	278.8	263.6	735.1	601.8
PAT	11.3	1.4	30.2	10.8
OPBDIT/OI	4.3%	0.8%	6.7%	4.6%
PAT/OI	4.1%	0.5%	4.1%	1.8%
Total outside liabilities/Tangible net worth (times)	1.1	1.6	0.9	1.1
Total debt/OPBDIT (times)	3.8	34.3	2.6	6.1
Interest coverage (times)	6.8	0.6	10.6	3.0

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

Source: Raj Group; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2023 (Rs. crore)	Date and Rating on	Date & Rating		
						FY2023	FY2022	FY2021
					Dec 29, 2023	Sep 22, 2022	-	-
1	Fund based – Pre and Post Shipment Financing	Short-term	75.00	-	[ICRA]A2	[ICRA]A2+	-	-
2	Non-fund based – Loan Equivalent Risk	Short-term	5.00	-	[ICRA]A2	[ICRA]A2+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term fund-based – Pre and Post Shipment Financing	Simple
Short-term Non-fund based – Loan Equivalent Risk	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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term Fund-based – Pre and Post Shipment Financing	NA	NA	NA	75.00	[ICRA]A2
NA	Short-term Non-fund based – Loan Equivalent Risk	NA	NA	NA	5.00	[ICRA]A2

Source: *Company*

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*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Sandeep Aggarwal
+91 124 4545377
sandeep.aggarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches