

February 28, 2023

Rajasthan Arts and Crafts House: Rating reaffirmed at [ICRA] B+ (Stable) and removed from Issuer not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Export Packing Credit - EPC/PCFC	32.00	39.00	[ICRA] B+ (Stable); reaffirmed and removed from Issuer not Cooperating
Fund-based - Foreign Currency Term Loan	6.43	4.19	[ICRA] B+ (Stable); reaffirmed and removed from Issuer not Cooperating
Unallocated Limits	13.57	8.81	[ICRA] B+ (Stable); reaffirmed and removed from Issuer not Cooperating
Total	52.00	52.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has reaffirmed the rating assigned to Rajasthan Arts and Crafts House's (RACH) bank lines and removed it from Issuer Not Cooperating (INC) category, owing to the firm's cooperation in concluding the rating exercise. The rating favorably factors the extensive experience of its promoters in the handicraft/decorative/home furnishing items manufacturing industry. The rating also derives strength from the firm's established relationship with the overseas customers.

However, the rating is constrained by the moderate scale of operations, which have been on a declining trend since FY2020. RACH's operating income declined to Rs. 87.9 crore in FY2022 from Rs. 101.7 crore in FY2020 owing to increased container prices thereby leading to reduction in export demand, and further, OI is expected to decline by 8%-10% in FY2023. The operations of the firm are working capital intensive in nature as it majorly caters to the export market which necessitates high inventory and receivable cycle. RACH's margins are exposed to raw material price fluctuation risk in absence of any price variation clauses in the agreements with its customers and given the intense competition from numerous organized and unorganized players operating in the fragmented industry limits pricing flexibility. RACH's operations are also exposed to high client concentration risk. The rating is also constrained by the firm's exposure to the overseas market, which accounts for 90%–95% of its business and its profitability remains vulnerable to the foreign currency fluctuation risk in the absence of a strong hedging policy.

The Stable outlook on the rating reflects ICRA's opinion that the firm will continue to benefit from its established track record in the Indian handicrafts, furniture and other related accessories industry and established relationship with customers.

Key rating drivers and their description

Credit strengths

Established track record in handicraft/decorative/home furnishing items manufacturing industry – RACH was incorporated in 1976 and has a successful operational track record in the handicraft/decorative/home furnishing items manufacturing business. The promoters have more than four decades of experience in the handicraft/decorative/home furnishing items industry, which led to a strong regional presence for the firm in the US, Europe, Australia and South East Asia, etc.

Long association with international customers – The firm has been dealing with its key clients for more than a decade. The continuous improvement in RACH's export revenue in the recent past was supported by promoter's strong working relationship with international clients and established track record in the industry ensuring regular and steady orders from the clients. The export revenue share in total income for the firm has increased from 94% of total operating income (OI) in FY2022 (Rs. 81 crore in FY2022) to 96% of total OI in 9MFY2023 (Rs. 50.65 crore in 9MFY2023).

Credit challenges

Modest scale of operations along with high client concentration risk – The operating income of firm declined to Rs. 87.9 crore in FY2022 from Rs 101.7 in FY2020 owing to increased container prices thereby leading to reduction in export demand. Further, RACH's modest scale exposes it to the risk of a business downturn and hence, its ability to absorb temporary disruptions. It faces high client concentration risk with 91% and 83% of its overall OI coming from the top ten clients in FY2021 and FY2022 respectively. However, the sound credit profiles of these customers mitigate the counterparty credit risk to a large extent along with established relationship with these clients and the high-value orders repeatedly secured from these clients.

High working capital intensity – The firm has high WC intensive nature of operations by virtue of it being into the business of exports which necessitates high inventory and receivable cycle. The firm has a long operating cycle and needs to maintain high inventory to meet the export orders promptly. Further, the inventory position increased in FY2022 to 328 days from 303 days in FY2021 on account of an increase in shipping prices due to shortage of containers which led to an increase in the finished inventory. The working capital intensity stood at 82% as on March 31, 2022 against 72% as on March 31, 2021.

Vulnerability to foreign exchange risk and stiff competition from domestic players restricts profitability – The firm is mainly an export-oriented unit and therefore, its sales remain exposed to forex risk. Further, it does not hedge its foreign currency and hence, its profitability remains vulnerable to any adverse movements in foreign currency rates. The companies in the US and Europe import furnishing items from various Asian countries resulting in stiff competition among furniture and handicraft decorative furnishing items manufacturing companies in both domestic and international markets.

Liquidity position: Adequate

The firm's liquidity position is adequate, reflected by the average cushion available in the fund based working capital limits of around Rs. 4.7 crore during trailing twelve months ending December 2022 and cash and bank balance of Rs 0.91 crore as of December 31, 2022. The debt repayment obligations of Rs. 1.09 crore in FY2023 and Rs 3.18 crore in FY2024 are expected to be met from cash flow from operations. The company has limited capex plans in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the long-term rating if the firm demonstrates a healthy and sustained increase in its scale and profitability, along with an improvement in the working capital intensity and liquidity position.

Negative factors – Negative pressure could emerge in case of a significant decline in OI or operating profitability. Further, stretch in working capital cycle or significant capital withdrawal could exert negative pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the firm

Rajasthan Arts & Crafts House (RACH) was incorporated in 1976 by Mr. Ramesh Chand Gupta as a proprietorship firm. Later in 2005, it was converted into a partnership firm. It manufactures and exports large varieties of Indian handicrafts, furniture and other accessories to the US, Europe, Australia and South-East Asia, etc. The firm is promoted by Mr. Sunil Gupta and his family members. Its registered office and all six manufacturing units are located in Jodhpur (Rajasthan).

Key financial indicators (audited)

RACH Standalone	FY2021	FY2022
Operating income	94.8	87.9
PAT	2.5	2.5
OPBDIT/OI	9.8%	10.4%
PAT/OI	2.7%	2.8%
Total outside liabilities/Tangible net worth (times)	2.5	2.2
Total debt/OPBDIT (times)	6.4	6.6
Interest coverage (times)	2.4	2.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: firm's annual reports, ICRA Research

Status of non-cooperation with previous CRA

CRA	Rating Action	Date
CRISIL	CRISIL B+ (Stable) (Issuer not Cooperating)	November 23, 2022

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as of December 2022	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Date & Rating in					
					February 28, 2023	November 30, 2021	September 15, 2020	August 04, 2020	-	-
1	Export Packing Credit	Long Term	39.00	-	[ICRA] B+ (Stable)	[ICRA] B+ (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable)	-	-
2	Foreign Currency Term Loan	Long Term	4.19	4.19	[ICRA] B+ (Stable)	[ICRA] B+ (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable)	-	-
3	Unallocated Limits	Long Term	8.81	-	[ICRA] B+ (Stable)	[ICRA] B+ (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable); ISSUER NOT COOPERATING	[ICRA] BB- (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Export Packing Credit – EPC/PCFC	Simple
Long-term – Fund-based Foreign Currency Term Loan	Simple
Long-term – Unallocated Limits	NA

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based EPC/PCFC	-	9.20%	-	39.00	[ICRA] B+ (Stable)
NA	Long-term – Fund-based Foreign Currency Term Loan	Jan-2019	7.65%	March 2025	4.19	[ICRA] B+ (Stable)
NA	Long-term – Unallocated	-	-	-	8.81	[ICRA] B+ (Stable)

Source: Firm

Annexure II: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4829

rajeshwar.burla@icraindia.com

Anupama Reddy

+91 40 4547 4829

anupama.reddy@icraindia.com

Neha Mittal

+91 124-4545 391

Neha.mittal@icraindia.com

Yash Garg

+91 124-4545 398

yash.garg@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.