

Rajasthan International

January 11, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------|--------------------------------------|-------------------------------------|--------------------------------|
| Fund Based | 7.00 | 7.00 | [ICRA]BB- (Stable); reaffirmed |
| Non-fund Based | 3.00 | 3.00 | [ICRA]A4; reaffirmed |
| Total | 10.00 | 10.00 | |

Rating action:

ICRA has reaffirmed its long-term rating of [ICRA]BB- (pronounced ICRA double B minus) on the Rs. 7.00-crore¹ fund-based bank limits of Rajasthan International² (RI). ICRA has also reaffirmed its short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 3.00-crore non-fund based limits of the firm. The outlook on the long term rating is Stable.

Rationale:

The ratings reaffirmation continues to favourably factor in the extensive experience of the promoters in the textile trading industry and its well-established relationships with suppliers and customers, which ensures smooth supply and delivery of products. The ratings also factor in the firm's low customer-concentration risks as reflected by ~20% revenue contribution by the top-10 customers in FY2017, and the its established position as the sole distributor of needles in North India³ for a leading needle-manufacturing company, Groz Beckert. Its established tie-ups with other reputed manufacturers such as Invista Singapore Private Limited, Juki, Brother Machinery Limited, Kluber Lubrication etc. are other credit positives.

However, the ratings are constrained by the firm's modest scale of operations coupled with muted revenue growth in FY2017. ICRA also notes the continuous decline in the firm's operating profit margin over the past two years. The marginal growth in revenues accompanied by declining margin was due to the challenging operating environment, including demonetisation and the impact of Goods and Services Tax (GST) in the current year. The ratings are also constrained by the high working-capital intensive nature of the firm's operations, given the high inventory-holding requirements. This in turn impacts the liquidity as is evident from the utilisation of its working-capital limits. The reaffirmed ratings also factor in the modest debt-coverage indicators with interest coverage ratio of 1.84 times and Total Debt/OPBDITA of 4.25 times in FY2017. The firm continues to be exposed to adverse movement in foreign exchange fluctuations as it does not hedge its foreign exchange payable position. ICRA also notes the risk of capital withdrawal RI is exposed to as a partnership firm.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

³ For a well defined territory

Rating Outlook: Stable

ICRA believes that RI will continue to benefit from the extensive experience of its partners. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working-capital management, strengthen its financial risk profile. The outlook may be revised to Negative if the cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers:

Credit strengths

Extensive promoters' experience and established track record of the firm: RI was established in 1961 by Mr. Beg Raj Bihani and commenced operations as the exclusive distributor of needles manufactured by Groz-Beckert in North India. The partners have extensive experience in this sector.

Fairly diversified customer profile with low concentration risk: As a dealer of different products in the textile industry, the firm has a pan-India presence. The company has an established customer base in India, and its customer concentration has also remained low with the top 10 customers accounting for less than 20% of total sales in FY2017.

Established relationship with key suppliers: RI commenced operations as the exclusive distributor of needles manufactured by Groz-Beckert in North India. This apart, the firm has established tie-ups with other reputed manufacturers such as Invista Singapore Private Limited, Juki, Brother Machinery Limited, Kluber Lubrication etc., which mitigate the risk of supply constraints.

Diversification of product portfolio: Over the past 10 years, the firm has expanded its distribution product portfolio by adding new products of various international brands including Brother Machinery (Asia) Limited, CM Cerliani SRL, Foster Needle Co. Inc., Invista Singapore Pvt. Ltd., Maier Unitas GMBH, Memminger IRO GMBH, Siliconi Commercial S P A etc. to its portfolio. Nonetheless, about 70% of the revenues are derived from the sale of needles.

Credit challenges

Modest scale of operations: The firm has not significantly scaled up its business in the past several years. It has a moderate scale of operations and has witnessed muted revenue growth over the last three-year period.

High working-capital intensity: The firm's working-capital intensity remained high at 33% in FY2017 owing to high inventory level that also exposes it to the risk of inventory losses. Given the wide variety of products being distributed, and the need to maintain inventory of 70–90 days as mandated by its suppliers, the inventory levels for the firm remain high.

Moderate capital structure: Despite its long operational track record, the firm has not been able to significantly shore up its reserves, as reflected in its modest net worth of Rs. 6.52 crore as on March 2017, with gearing of 0.94 times and total outside liabilities to total net worth ratio of 1.77 times as on the same date.

Exposure to foreign exchange fluctuation risks: Given that a about 20–30% of the firm's material requirement is met through imports, and in the absence of adequate hedging mechanism, the firm remains exposed to fluctuations in foreign exchange rates.

Risks inherent in partnership firm constitution: The firm remains exposed to risks arising due to its partnership nature, limited ability to raise capital and exposure to any substantial capital withdrawal that may impact net worth and gearing levels.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

RI was established by Mr. Beg Raj Bihani in 1961. At present, the operations are managed by Mr. Rajesh Bihani. The firm is involved in the distribution of products used in the textiles industry such as needles, spare parts and consumables for knitting, sewing and felting machines, lubricating oils, spandex yarn, hand gloves, machine-maintenance sprays, cutting blades and knives. RI commenced operations as the exclusive distributor of needles manufactured by Groz-Beckert in North India. The company has its offices in New Delhi, Gurugram and Bengaluru.

In FY2017, the company recorded a net profit of Rs. 0.42 crore on an operating income (OI) of Rs. 33.84 crore compared with a net profit of Rs. 0.40 crore on an OI of Rs. 32.00 crore in FY2016.

Key financial indicators (audited)

| | FY2016 | FY2017 |
|------------------------------|---------------|---------------|
| Operating Income (Rs. crore) | 32.00 | 33.84 |
| PAT (Rs. crore) | 0.40 | 0.42 |
| OPBDIT/ OI (%) | 5.85% | 4.24% |
| RoCE (%) | 10.98% | 11.07% |
| Total Debt/ TNW (times) | 1.03 | 0.94 |
| Total Debt/ OPBDIT (times) | 3.50 | 4.25 |
| Interest Coverage (times) | 2.35 | 1.84 |
| NWC/ OI (%) | 35.11% | 32.91% |

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net worth; NWC: Net Working Capital; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

Source: Financial statements of RI; ICRA research

Status of non-cooperation with previous CRA: Not applicable
Any other information: None

Rating history for last three years:

| S. No. | Instrument | Current Rating (FY2018) | | | | Chronology of Rating History for the past 3 years | | | |
|--------|----------------|-------------------------|--------------------------|--------------------------------|-----------------|---|-----------------------|-----------------------|--|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY16 | Date & Rating in FY15 | |
| | | | | | January 2018 | November 2016 | November 2015 | December 2014 | |
| 1 | Fund based | Long term | 7.00 | - | [ICRA]BB-Stable | [ICRA]BB-Stable | [ICRA]BB-Stable | [ICRA]BB-Stable | |
| 2 | Non-fund based | Short term | 3.00 | - | [ICRA]A4 | [ICRA]A4 | [ICRA]A4 | [ICRA]A4 | |

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 |
|---------|----------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| - | Cash Credit | - | - | - | 7.00 | [ICRA]BB- (Stable) |
| - | Non fund based limit | - | - | - | 3.00 | [ICRA]A4 |

Source: RI

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