

June 29, 2020

Raj Overseas: Ratings reaffirmed

Summary of rated action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	10.00	10.00	[ICRA]A- (Stable); Reaffirmed
Short Term - Fund Based	80.00	80.00	[ICRA]A2+; Reaffirmed
Short Term – Non-fund Based	10.00	10.00	[ICRA]A2+; Reaffirmed
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's ratings reaffirmation continues to take into account the extensive experience of the promoters, Raj Overseas' established track record in hand-tufted carpet manufacturing business and its healthy relationships with suppliers and customers. The firm continues to benefit from 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. Further, the ratings take into account the favourable financial profile with comfortable capital structure and moderate debt coverage indicators. However, the ratings take into account the moderation in operating margins witnessed by the firm in the last two years owing to increased input costs and job-work expenses. Furthermore, some moderation is expected in revenues and profitability in the near term owing to Covid-19. The ratings remain constrained on account of high customer and geographical-concentration risks with the top two customers contributing more than 50% of the revenues and the majority of sales made to the US. 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. Being a partnership firm, Raj Overseas is also exposed to the inherent risks such as withdrawal of capital, etc.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the firm 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, which will support its credit profile.

Key rating drivers and their description

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 customers and suppliers, which help in managing the business efficiently.

Backward integration into woollen spinning through Group entities help in better quality control – The firm continues to benefit from its backward integration into woollen spinning through Group entities and a job-worker base at the sister concerns, which ensures easy availability of raw materials and labour.

Comfortable capitalisation and coverage metrics – Raj Overseas’ financial profile remained comfortable with low gearing of 0.4 times as on March 31, 2020, and comfortable coverage indicators as reflected by interest coverage ratio of 13.5 times and NCA/TD of 27% in FY2020, on a provisional basis.

Credit challenges

Adverse impact of Covid-19 expected – The Covid-19 pandemic, contagion fears, and economic uncertainties are likely to affect the entity's operations. The demand is expected to witness moderation due to discretionary spending in the near term.

High customer and geographical-concentration risks – The firm faces customer-concentration risk with the top two customers contributing more than 50% 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.

Exposure to foreign currency fluctuation and volatility in raw material prices – As exports constitute a significant percentage of the turnover, the firm remains exposed to currency fluctuations to the extent of unhedged exposure. Further, any major raw material price escalation would affect the profitability owing to intense competition and the inability to pass on the raw material price escalation to customers.

Any downward revision in export incentives can impact profitability – The Government of India (GoI) extends various incentives to encourage exporters. The firm enjoys export incentives in the form of duty drawbacks and the MEIS, 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 its profitability and cash flows.

Liquidity position: Adequate

The firm has **adequate** liquidity despite some moderation in the firm’s cash flows on account of the Covid-19 pandemic over the near to medium term. It has sufficient cash accruals to repay its near-term debt obligations. The average fund-based utilisation was 87% during the 12-month period that ended in May 2020 and average utilisation as a percentage of drawing power was 62% for FY2020. However, the regular withdrawal of capital from the business in the past few years is a concern and exerts pressure on the free cash flows.

Rating sensitivities

Positive triggers: The ratings may be upgraded if the firm is able to register an a) increase in the scale of operations and profitability on a sustained basis and b) improve its collection cycle, leading to better working capital management.

Negative triggers: The ratings may be downgraded if the firm witnesses a) decline in the scale of operations and profitability, b) deterioration in collection cycle, leading to stretch in liquidity and c) higher-than-expected withdrawal leading to decline in net worth. Furthermore, deterioration in return on capital employed (RoCE) below 15%, on a sustained basis, may result in a rating downgrade.

Analytical approach

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

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 carpets and other woollen made-ups to overseas customers in 1995. Gradually, exports become the main revenue driver of the Group. The firm has seven manufacturing units in Panipat, Haryana. It primarily exports various kind of woollen hand-tufted carpets, bath mats, 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 (audited)

	FY2018	FY2019	FY2020 [^]
Operating Income (Rs. crore)	476.5	591.8	596.8
PAT (Rs. crore)	45.5	45.7	38.4
OPBDIT/OI (%)	15.5%	12.2%	10.0%
RoCE (%)	31.6%	27.53%	20.03%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7	0.8
Total Debt/OPBDITA (times)	1.0	1.4	1.5
Interest Coverage (times)	25.5	16.7	13.5
DSCR (times)	19.3	10.5	5.2

[^]provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018
					29-Jun-2020	-	31-Jan-2019	11-Jul-2017
1	Term Loans	Long Term	10.00	10.5	[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+

Amount in Rs. crore

*as on March 31, 2020, on a provisional basis

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	Nov 2019	NA	FY2023	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

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K Ravichandran

+044 4596 4301

ravichandran@icraindia.com

Manish Ballabh

+0124 4545 812

manish.ballabh@icraindia.com

Vipin Jindal

+0124 4545 355

vipin.jindal@icraindia.com

Prerna Aggarwal

+0124 4545 891

prerna.aggarwal@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 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