

Press Release

Rajdhani Crafts Industries Private Limited

12 October, 2017



Rating Downgraded

Total Bank Facilities Rated	Rs. 41.51 crore
Long Term Rating	SMERA B+/Stable (Downgraded from SMERA BB-/Stable)
Short Term Rating	SMERA A4 (Downgraded from SMERA A4+)

* Refer Annexure for details

SMERA has downgraded the long term rating on the above bank facilities of Rajdhani Crafts Industries Private Limited (RCIPL) to '**SMERA B+**' (read as SMERA B plus) from '**SMERA BB-**' (read as SMERA double B minus) and short term rating to '**SMERA A4**' (read as SMERA A four) from '**SMERA A4+**' (read as SMERA A four plus). The outlook is '**Stable**'.

Further, SMERA has withdrawn the long term rating of SMERA BB-/Stable (read as SMERA double B minus) on the Rs.1.31 crore facility. The company has fully repaid the same which has been certified by the banker.

The rating downgrade reflects deterioration in its financial risk profile on account of decrease in tangible networth and unevenness in profitability.

The Jaipur-based Rajdhani Group (RG) established in 1964, is engaged in the manufacture and export of wooden furniture products and handicraft items. The group comprises Rajdhani Crafts Industries Private Limited (RCIPL) and Rajdhani Crafts (RC). The group sells its products under the brand name 'Rajdhani'. RG was promoted by the Jaipur-based Mr Agarwal and family and has presence in the wooden furniture industry for over five decades. The day-to-day operations of the group are led by Mr. Samir Agarwal and Mr. Sudhir Agarwal. As informed by the management, Rajdhani Crafts Industries Private Limited has taken over the operations of Rajdhani Crafts from April, 2017.

The manufacturing unit is located in Jaipur and the products are mainly sold to European countries.

List of key rating drivers and their detailed description

Strengths

Long track record of operations and experienced management

RG was established in 1964 by Mr. Agarwal and family. RG is engaged in the manufacturing and export of wooden furniture products and handicraft items for more than five decades. The products manufactured include chairs, tables, sofa sets, dining tables among others made of plywood board and wood. The management is led by Directors, Mr. Samir Agarwal and Mr. Sudhir Agarwal who possess around two decades of experience in the industry. This has enabled the company establish and maintain long term relations with customers and suppliers.

Modest order book position

RG has unexecuted orders of Rs. 37.00 crore in hand as on 31 July, 2017, expected to be completed by December, 2017. Further, as informed by the management, RG reported revenue of Rs. 39.00 crore during April, 2017 to July, 2017. The group has tied-up with the Netherland-based Habufa Meubelen B.V. to supply monthly orders worth Rs. 6.00 crore. Hence, the modest order book position provides moderate revenue visibility over the medium term.

Weaknesses

Uneven profit margins

The group has reported EBITDA margin of 14.41 percent for FY2017 compared to 12.17 percent for FY2016 and 20.44 percent for FY2015. The uneven trend of profit margin is mainly due to fluctuations in raw material prices which could not be passed on to the customer. Further, the profitability margin is also susceptible to fluctuations in forex rates as the group exports around 90 percent of its revenue to overseas markets. The company does not have adequate hedging mechanism in place.

Average financial risk profile

The financial risk profile of the group deteriorated in FY2016 over FY2015 marked by decline in tangible networth to Rs. 25.58 crore as on 31 March, 2017 from Rs. 30.54 crore as on 31 March, 2015. This was mainly on account of repayment of the unsecured loan of Rs. 7.40 crore which was previously treated as quasi equity and withdrawal of capital from its partnership firm - Rajdhani Crafts. The gearing stood at 2.35 times as on 31 March, 2017 as against 1.62 times as on 31 March, 2015. The interest coverage ratio (ICR) stood at 1.57 times in FY2017 as against 1.70 times in FY2015. The debt service coverage ratio (DSCR) stood at 1.01 times in FY2017 as against 1.29 times in FY2016 and 1.68 times in FY2015. The net cash accurals to total debt (NCA/TD) stood at 0.05 times for FY2017 as against 0.08 times in the previous year. The Total Outside Liabilities to tangible networth (TOL/TNW) stood at 2.75 times as on 31 March, 2017 compared to 2.57 times as on 31 March, 2016 and 2.06 times as on 31 March, 2015.

Working capital intensive operations

The operations are working capital intensive as reflected by the high gross current asset (GCA) days of 338 in FY2017 as against 332 in FY2016. This is mainly on account of high inventory required to be maintained by the company to meet orders in time. The inventory days stood at 254 days in FY2017 as against 208 days in FY2016. Further, the working capital limit has been fully utilised during the last six months ended June, 2017.

Analytical Approach

To arrive at the ratings, SMERA has combined the business and financial risk profile of RCIPL and Rajdhani Crafts (RC), together referred to as the 'Rajdhani Group'. The consolidation is in view of the common ownership and similarities in the business models of the entities. Further, going forward, RCIPL is expected to take over the existing business of RC, a partnership firm.

Outlook: Stable

SMERA believes that RG will maintain a stable outlook over the medium term owing to its experienced management and long operational track record. The outlook may be revised to 'Positive' in case of significant increase in revenue and profitability while improving its liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case the group registers deterioration in the financial risk profile and liquidity profile due to higher than expected working capital requirement.

About the rated entity – Key financials

For FY2016–17, RG reported profit after tax (PAT) of Rs.1.20 crore on operating income of Rs.63.16 crore, as against net loss of Rs.0.22 crore on operating income of Rs.63.16 crore in FY2015–16. The net worth stood at Rs.25.58 crore as on 31 March, 2017 compared to Rs.26.67 crore a year earlier.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
14 Mar, 2016	Cash Credit	Long Term	5.00	SMERA BB-/ Stable (Assigned)
	Term Loan	Long Term	1.31	SMERA BB-/ Stable (Assigned)
	Overdraft	Long Term	12.20	SMERA BB-/ Stable (Assigned)
	Packing Credit	Short Term	22.00*	SMERA A4+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	1.00	SMERA A4+ (Assigned)

*Interchangeable with Cash Credit

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit#	NA	NA	NA	5.00	SMERA B+/ Stable (Downgraded)
Term Loan	NA	NA	NA	-	SMERA B+/Stable (Withdrawn)
Overdraft	NA	NA	NA	9.40	SMERA B+/ Stable (Downgraded)
Packing Credit*#	NA	NA	NA	27.11	SMERA A4 (Downgraded)

*Includes sublimit of FOB/R/FOBNLC/FOUBP to the extent of Rs.8.00 crore,

#includes sublimit of ILC/FLC/ILG to the extent of Rs.2.50crore.

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ABOUT SMERA

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