Press Release

Raghu Exports India Private Limited

September 16, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs.53.50 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short-term rating of **'ACUITE A4' (read as ACUITE A four)** to the Rs.53.50 crore bank facilities of Raghu Exports India Private Limited (REIPL). The outlook is **'Stable.'**

The rating assigned to REIPL takes into account below average financial risk profile and stretched liquidity position of the company. Debt to equity ratio of REIPL stood at 4.36 times as on March 31, 2021 (Provisional) and debt protection metrics stood at a moderate to low level of 1 to 1.53 times in FY21 (Provisional). Further, REIPL also has intensive working capital operations marked by average GCA days of ~285 for the three years ending March 31, 2021 (Provisional). Moreover, high customer concentration, susceptibility of profitability to fluctuation in raw material prices and high competitive intensity further constrain the rating. Although, experienced management and established track record of operations offer some rating comfort.

About the Company

Incorporated in 2003, REIPL is a manufacturer and exporter of leather, cotton, polyester goods and accessories such as tool bags, apron, pouches, luxury leather, belts, safety shoes, etc. The company, promoted by Mr. Parveen Kumar has its manufacturing facility located at Jalandhar and has annual installed capacity of 97 lakh sq. ft. of finished leather and 14 lakh to 36 lakh pieces of other leather goods and accessories.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of REIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**
  REIPL was established in the year 2003 by Mr. Parveen Kumar, who is in the similar business since past 30 years. Business started as a trader of raw leather in 1986 through a partnership firm. Later in 1992, it started manufacturing of leather and then in 2003 the constitution was changed to a private limited company. Extensive experience of the promoter has enabled REIPL to established long-standing relations with most of its key suppliers and customers, with whom REIPL has been associated since last 10 to 20 years. This apart, the company also expanded its product portfolio by addition of new products like gloves and safety shoes in the past couple of years. However, the company's revenue has remained under pressure in the past two years due to Covid-19-led disruptions.

  Compared to Rs.91.10 crore in FY19, REIPL's operating income stood at Rs.83.49 crore in FY21 (Provisional). The company reported ~38-80per cent decline in sales volume due to Covid-19-led disturbance in FY21. However, higher realization resulted in 1.88per cent growth in revenue in FY21 (Provisional). With higher realization, the company's EBITDA margin also expanded to 7.51per cent in FY21 (Provisional) from 6.91per cent in FY20. Going ahead, Acuite estimates REIPL's revenue to grow at a CAGR of over 6per cent during FY22 to FY24, while EBITDA margin would be ~7-7.2%.

  Acuite believes extensive experience of management would support REIPL to increase its scale of business going ahead.

Weaknesses

- **Below average financial risk profile**
  REIPL has below-average financial risk profile marked by modest net worth, high gearing position and moderate to low debt protection metrics. The company's net worth as on March 31, 2021 (Provisional) stood at Rs.11.10 crore compared to Rs.10.32 crore as on March 31, 2020.

  Debt to equity ratio of the company remains on a higher side, though has improved marginally. As on March 31, 2021 (Provisional), debt to equity ratio stood at 4.36 times against 4.77 times as on March 31, 2020. Total debt as on March 31, 2021 (Provisional) was Rs.48.37 crore, comprising long-term debt of Rs.13.19 crore, short-term debt of Rs.33.33 crore and unsecured loans from directors/promoters of Rs.1.85 crore. Going ahead, though debt to equity ratio would improve from FY21 level, it would remain at 2.93-3.8 times during FY22 to FY24. Total outside liabilities to tangible net worth (TOL/TNW) also stood higher at 5.97 times as on March 31, 2021 (Provisional).

  Though interest coverage ratio of REIPL has been improving since past couple of years, it remained at a moderate level. In FY21 (Provisional), interest coverage ratio improved to 1.53 times from 1.20 times in FY20. DSCR stood at 1 for FY21 (Provisional). Acuite believes REIPL's interest coverage ratio would remain at a moderate level of 1.54-1.65 times over a medium term. DSCR would remain below unity over a medium term.

- **Intensive working capital nature of operations**
  REIPL has intensive working capital operations marked by average gross current asset days of ~285 for the last three years ending March 31, 2021 (Provisional). The company's GCA days are driven by inventory days, which stood at ~162, on an average, during FY19 to FY21 (Provisional). While, for FY21 (Provisional), GCA days came down to 274 from 306 for FY20. This was led by improvement in collection period. Debtor days stood at 60 for FY21 (Provisional) compared to 88 for FY20 and payable days stood at 95 for FY21 (Provisional). Average fund-based bank limit utilization, during the six months through July 2021, was at ~86per cent. Going ahead, during FY22 to FY24, the company's GCA days are estimated at 245 and above level.

- **High customer concentration**
  REIPL has high customer concentration with top 5 customers accounting for over 55per cent of total sales in FY21. Thus any delay in order confirmation or no repeat orders from top customers would have a sharp impact on REIPL's overall performance. Although, the company has long-standing relationship of over 10 years with some of its key customers, which offers some comfort.

- **Susceptibility of profitability to fluctuation in raw material prices and competitive nature of industry**
  REIPL's profitability is highly susceptible to prices of raw material, which is raw leather (~60per cent of total raw material cost). Prices of raw leather are very volatile in nature based on demand-supply scenario. Also, ability to pass on higher raw material prices is restricted by competitive nature of the industry, which is dominated by small firms.

Rating Sensitivities

- Improvement in scale of operations while maintaining operating profitability
- Elongation in working capital cycle

Material Covenants

Nil

Liquidity Position – Stretched

REIPL has stretched liquidity position. The company generated cash accruals of Rs.2.02 crore for FY21 (Provisional), which was almost at par with debt repayment obligations for the same period. Given intensive nature of operations, average fund-based bank limit utilization in the last 6 months through July 2021 stood at ~86per cent. Current ratio, as on March 31, 2021 (Provisional) stood at a moderate level of 1.16 times.

Going ahead, the company's cash accruals are estimated in the range of Rs.2.21 crore to 2.25 crore during FY22 to FY24 compared to debt repayment obligations of Rs.3.45 crore to Rs.3.64 crore during the same period. The gap between cash accruals and debt repayment would be met through a likely fund infusion by promoters via unsecured loans.

Outlook: Stable

Acuité believes that REIPL would maintain a 'Stable' outlook over a medium term on the back of its established track record of operations and extensive experience of the management in leather industry. The outlook may be revised to 'Positive' in case the company registers substantially higher than expected growth in its revenue and profitability, significantly improving financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenue and profitability, hurting its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)*	FY20 (Actual)
Operating Income	Rs. Cr.	83.49	81.96
PAT	Rs. Cr.	0.81	0.35
PAT Margin	(%)	0.97	0.43
Total Debt/Tangible Net Worth	Times	4.36	4.77
PBDIT/Interest	Times	1.53	1.20

**Acuite has assumed tax provision of Rs.0.22 Cr.*

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities -https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Central Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00*	ACUITE BB-/Stable (Assigned)
Central Bank of India	WCTL	Not Available	Not Available	Not Available	7.50	ACUITE BB-/Stable (Assigned)
Central Bank of India	Term Loan	Not Available	Not Available	Not Available	0.85	ACUITE BB-/Stable (Assigned)
Central Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4 (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.15	ACUITE BB-/Stable (Assigned)

**includes EPC/EBP/EBN sub-limit of Rs.28 Crore*

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
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