

## Press Release

Raghu Exports India Private Limited

July 14, 2022



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.50	ACUITE BB-   Stable   Reaffirmed	-
Bank Loan Ratings	7.00	-	ACUITE A4   Reaffirmed
Total Outstanding Quantum (Rs. Cr)	53.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has reaffirmed 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.'

## 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

REIPL was established in the year 2003 by Mr. Parveen Kumar, who is in the similar business since past 30 years. Extensive experience of the promoter has enabled REIPL to establish 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. Compared to the previous years, REIPL has shown an increasing trend in the revenue as is apparent from the revenue growth from FY2021 (audited) to FY2022 (Provisional) i.e., Rs.83.17 and Rs.103.97 respectively due to increase in the demand of the products in the domestic and international markets. On the other side, the PAT Margin has a slight improvement from 1.15% in FY2021 (audited) to 1.59% in FY2022 (provisional).

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

## **Weaknesses**

### **Below average financial risk profile**

The financial risk profile of the company is below average and have shown minuscule improvement from last financial year. The gearing ratio of the company stood at 3.33 times in FY2022 (Provisional) as compared to 4.29 times in FY2021 (audited)). The company's net worth as on March 31, 2022 (Provisional) stood at Rs.12.92 Crore compared to Rs.11.28 Crore as on March 31, 2021.

The total debt of the company is Rs.42.99 as on 31<sup>st</sup> March 2022 which consists of Rs.7.63 Cr of long term debt, unsecured loans of Rs.2.04 Cr, short term debt of Rs.29.73 and current portion of long term debt amount to Rs.3.58 Cr.

The interest coverage ratio improved from 1.39 times in FY2021 to 1.87 times in FY2022. Further, the DSCR of the company stood low at 0.95 times in FY2022 vis-a-vis 0.92 times in FY2021. further, it is expected to improve in FY2023.

### **Intensive working capital nature of operations**

REIPL has intensive working capital operations marked by Gross current asset of 290 days in FY2021 and 222 days in FY2022. This was led by improvement in collection period. The inventory and debtor level stood at 156 days and 46 days in FY2022(provisional) against 192 days and 72 days in FY2021 respectively.

Company's usually processing time to transform a raw material to finished product is 150 days. Creditor days decreased from 98 days in FY2021 to 74 days in FY2022(provisional). Average fund-based bank limit utilization is 84% from April 21 to March 22.

### **Customer Concentration**

REIPL has high customer concentration with top 5 customers accounting for over 74 per cent of total sales in FY22. 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**

None

### **Liquidity Position Stretched**

REIPL has stretched liquidity position. The company generated cash accruals of Rs.3.11 Cr for FY2022 (Provisional), which was less than the debt repayment obligations of Rs.3.49 Cr. for the same period. Given intensive nature of operations, average fund-based bank limit utilization in the last year from April 2021 to March 2022 stood at ~84per cent. Current ratio, as on March 31, 2022 (Provisional) stood at a moderate level of 1.21 times. Going ahead, the company's

cash accruals are estimated in the range of Rs.4.56 Cr and Rs.5.25 Cr in FY2023 and FY2024 compared to debt repayment obligations of Rs.4.49 Cr in FY2023 and Rs.2.92 Cr in FY2024 which shows some improvement in liquidity profile in coming years. The company has unencumbered cash balance of Rs.0.65 Cr.

### 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.

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	103.97	83.17
PAT	Rs. Cr.	1.65	0.96
PAT Margin	(%)	1.59	1.15
Total Debt/Tangible Net Worth	Times	3.33	4.29
PBDIT/Interest	Times	1.87	1.39

### 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>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Sep 2021	Term Loan	Long Term	0.85	ACUITE BB-   Stable (Assigned)
	Letter of Credit	Short Term	7.00	ACUITE A4 (Assigned)
	Cash Credit	Long Term	36.00	ACUITE BB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	7.50	ACUITE BB-   Stable (Assigned)
	Proposed Bank Facility	Long Term	2.15	ACUITE BB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.00	ACUITE BB-   Stable   Reaffirmed
Central Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB-   Stable   Reaffirmed
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.50	ACUITE BB-   Stable   Reaffirmed
Central Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	7.50	ACUITE BB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

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