Latiyal Handicrafts Private Limited

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	50.00 (Enhanced from 18.00)	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Reaffirmed
Total Bank Facilities	**50.00 (Rs. Fifty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating of long term / short term bank facilities of Latiyal Handicrafts Private Limited (LHPL) factors in the deterioration in capital structure, stretched working capital cycle and weak liquidity position. Furthermore, the ratings, also continue to remain constrained on account of modest scale of its operations with customer and geographical concentration risk, its presence in the highly competitive and fragmented nature of the handicraft industry and vulnerability of profitability margins to fluctuation in the raw material prices as well as foreign exchange fluctuation.

However, the above weaknesses are partially offset by the strength derived from the experienced management with its long track record of operations and established customer base with diversified products offerings. The ratings, further, continue to derive strength from moderate profitability margins.

Key Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations of the company with geographical and customer diversification
- Sustained improvement in profitability margins with PBILDT margin more than 12%.
- Sustained improvement in liquidity with operating cycle less than 75 days.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any debt-funded project undertaken by the company which results in deterioration of capital structure beyond 2.0 times
- Any deterioration in profitability margin with PBILDT margin below 8% on sustained basis.
- Deterioration in liquidity with operating cycle more than 200 days

Detailed description of the key rating drivers:

Key Rating Weaknesses

Modest scale of operations with geographical concentration and customer concentration risk

Total Operating Income (TOI) of the company marginally grew by 9.49% on YoY basis to Rs.120.29 crore in FY21 (vis-à-vis Rs.109.86 crore in FY20) mainly on account of higher demand in the market mainly in USA, however, stood modest at Rs.120.29 crore in FY21. Furthermore, during 6MFY22 (refers to the period April 1, 2021 to September 30, 2021), LHPL has recorded TOI of Rs.64.38 crore and has order book worth of Rs.122.15 crore as on September 30, 2021 (vis-à-vis Rs.72.19 crore as on December 31, 2020). The company has generated 98.01% of net sales from export sales in FY21 (97.37% in FY20) and 1.99% of net sales in FY21 (2.63% in FY20) from domestic sales. Further it has geographical concentration risk as it generated around 57.63% of net sales from USA only in FY21 (vis-à-vis 59.51% in FY20).

LHPL registered major sales from exports and generates revenue from its top 5 customers of around 61.55% of net sales in FY21 (vis-à-vis 69.74% of net sales in FY20) which led to customer concentration risk. However, the company has been dealing with these customers for a long time and has developed good relations over the years which have led to repeat business from them.

Weak solvency position

LHPL's debt profile as on March 31, 2021, includes dropline overdraft limit of Rs.5.33 crore, Covid-19 Loan of Rs.7.14 crore, unsecured loans from directors and relatives of Rs.19.88 crore, unsecured loans from other corporates of Rs.7.51 crore and working capital limit of Rs.28.74 crore as against an unsecured loan from director and relatives of Rs.14.19 crore, unsecured loan from others of Rs.2.88 crore and working capital limit of Rs.21.12 crore as on March 31, 2020). The overall gearing deteriorating to 1.58 times as on March 31, 2021 from 1.17 times as on March 31, 2020, mainly on account of increase in unsecured loans (from directors & other corporates) along with increase in level of working capital borrowings in order to meet the higher working capital borrowing requirement.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Further, the debt coverage indicators (TDGCA (Total Debt to Gross Cash Accruals)) of the company also deteriorated from 5.01 times as on March 31, 2020 to 7.65 times as on March 31, 2021 mainly due to proportionately higher increase in total debt than GCA level. However, the interest coverage ratio improved marginally and stood moderate at 4.61 times in FY21 (vis-à-vis 4.56 times in FY20) owing to decrease in interest expenses from Rs.3.08 crore in FY20 to Rs.3.00 crore in FY21.

Working capital intensive nature of operations

The operations of the company remained working capital intensive in nature. The average working capital cycle of the company rose to 136 days in FY21 as against 92 days on account of larger amount of funds being blocked in inventories. The average inventory days increased to 115 days in FY21 from 84 days in FY20. The company maintains inventory of 15-20 days for manufactured goods whereas it keeps raw material inventory of about 100 days. Further the key raw materials of the company comprise of various categories of metals (including stainless steel, brass), Timber (for wood-based products), and glass. Since the company deals in handicrafts items with wide range of products under each segment, it is obligatory to hold adequate inventory levels at all times to meet the production schedule.

Due to Covid -19 pandemic and on its second wave, the supply chains all around were adversely affected also the company was having good number of confirmed orders on hand. Accordingly, in order to ensure that the business activities are not affected for want of any raw materials and accessories required, the company had increased its inventory holding period. The same has also resulted in high utilization of working capital limits. Going forward with confirmed orders on hand the inventory days is expected to remain elevated.

Competitive and fragmented nature of handicraft industry with profitability vulnerable to volatile raw material prices and foreign exchange rate

The key raw materials required by the wooden handicraft industry are handicraft structures/accessories, Wood (sheesham & mango wood) & Ply, Hardware & Consumables, Polishing materials to meet the customers requirement which is procured by LHPL from the domestic market and processes the same to make handicrafts items. Further, the company maintains raw material inventory for 100 days. Due to competitive nature of the industry with presence of many small players in the industry, LHPL is exposed to the risk of inability to pass on the prices of raw material to its customers. Further, the company is exposed to foreign exchange fluctuation risk as the company derives more than 98.01% of its revenue from the export sales. LHPL hedges about 20% of its exposure and balance remain unhedged which exposes it to foreign currency fluctuation risk. However, the company has earned forex gain of Rs.1.10 crore in FY21 (vis-à-vis Rs.2.09 crore in FY20).

Key Rating Strengths

Experienced management with long track record of operations

LHPL was promoted by Mr. Radhey Shyam Ranga who has an experience of more than four decades in the wood and wooden articles industry. He is supported by his son, Mr Dev Narayan Ranga who has more than two decades of experience in the industry. Further, top management is assisted by second tier management namely Mr RC Bissa who looks after accounts and finance function of the company. The promoters of the company have infused funds in the form of unsecured loans which have no fixed repayment schedule. As on March 31, 2020, unsecured loans from promoters stood at Rs.19.88 crore (as against Rs.14.19 crore as on March 31, 2020).

Established relationship with customers along with diversified product portfolio

Being present in the industry since long period of time, it has established relations with its customers and get repeat business from them. It exports its products to USA, Canada, European countries, Australia, Saudi Arab, UAE and South Africa. Further, the product portfolio of the company is diversified and products of the company includes wooden based handcrafted furniture items like chair, table, cabinet, bed, almira/cupboard, wardrobe and buffet cabinets etc.

Moderate profitability margins

The profitability margins of the company slightly declined and stood moderate marked by PBILDT margin and PAT margin of 11.50% and 4.89% respectively in FY21 (vis-à-vis 12.78% and 5.64% respectively in FY20, the lower margin was mainly on account of higher cost of raw materials. Despite decline in margins the profitability continues to remain healthy. Going froward the margins are expected to decline and remain at about 10% mainly on account of higher raw material prices.

Liquidity: Stretched

The company's liquidity is stretched marked by higher working capital borrowings, negative cash flow from operating activities and modest GCA of Rs.1.6 crore to 1.78 crore projected. Maximum and average utilization of fund based packing credit limits remained at 99.63% and 92.22% during last 12 months ended September 2021. It has generated negative cash flow from operating activities of Rs.18.36 crore in FY21 (vis-à-vis Rs.5.80 crore in FY20) which is primarily on account of significant increase in Inventories.

Analytical Approach: Standalone

Applicable criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook and credit watch to Credit Ratings
Rating Methodology-Manufacturing Companies
CARE's Methodology for Short-term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios – Non-Financial Sector

About the Company
Jodhpur (Rajasthan) based, LHPL was incorporated in the year 2005. It is engaged in the manufacturing and export of wooden handcrafted furniture items like chair, table, cabinet, bed, almira/cupboard, wardrobe and buffet cabinets etc. LHPL is recognized as a certified 'Star Export House' by Govt. of India and has also got ISO 9001:2008 certifications. The company is also Forest Stewardship Council (FSC) certified supplier of wooden furniture products.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22(P)
Total operating income	109.86	120.29	**64.38**
PBILDT	14.04	13.83	**6.17**
PAT	6.19	5.88	**2.54**
Overall gearing (times)	1.17	1.58	**1.96**
Interest coverage (times)	4.56	4.61	**4.80**

A: Audited; P: Provisional
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-EPC/PSC		-	-	-	50.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-EPC/PSC	LT/ST*	50.00	CARE BB+; Stable / CARE A4+	1)CARE BB+; Stable / CARE A4+ (08-Nov-21)	1)CARE BBB-; Stable / CARE A3 (26-Mar-21) 2)CARE BBB-; Stable / CARE A3 (03-Apr-20)	1)CARE BBB-; Stable / CARE A3 (04-Apr-19)	-
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	-
3	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	-
4	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-19)	-

* *Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-EPC/PSC	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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