

May 14, 2016

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	7.00	SMERA BB-/Stable (Assigned)
Term Loan	1.10	SMERA BB-/Stable (Assigned)

SMERA has assigned rating of '**SMERA BB- (read as SMERA double B minus)**' to the above mentioned bank facilities of Rayon Textile India Private Limited (RTIPL). The outlook is '**Stable**'. The rating draws comfort from the company's experienced management and moderate financial risk profile. However, the rating is constrained by the uneven revenue and profitability trend, volatility in raw material prices and changes in government regulations in an intensely competitive and fragmented textile industry.

RTIPL is engaged in the manufacture of cotton yarn and trading of cotton bales and seeds. The company benefits from the extensive experience of the management in the industry. The financial risk profile of the company is moderate marked by gearing of 0.74 times and interest coverage ratio of 2.58 times for FY2014-15. The tangible net worth of Rs.5.60 crore includes unsecured loans of Rs.1.44 crore that are subordinated to bank debt as on March 31, 2015.

RTIPL's revenues are uneven with decline in revenue to Rs.42.03 crore in FY2014-15 from Rs.45.42 crore in FY2013-14. The EBITDA margins too have been uneven and registered a decline in FY2013-14 over FY2012-13. However, it improved marginally in FY2014-15 to 4.16 per cent from 3.94 per cent in FY2013-14. The profit margins of the company are susceptible to volatility in raw material prices and also high competition due to the fragmented nature of the industry. Also, adverse movement of cotton prices can adversely impact the company's profitability.

Rating Sensitivity Factors

- Volatility in raw material prices impacting profitability
- Improvement in profit margins as well as scale of operation
- Adverse changes in government policies

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Outlook: Stable

SMERA believes that RTIPL will benefit over the medium term from its established presence in the spinning industry and experienced management. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company fails to achieve scalability amidst intensifying competition in its area of operation or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Company

The Madhya Pradesh-based RTIPL, incorporated in 2009 by Mr. Shekhar Chand Patni, Mr. Sanjay Patni and Mr. Jugal Kishore Jain is engaged in the manufacture of cotton yarn and trading of cotton bales and seeds. The company has an installed capacity of 30,000 quintals for cotton yarn and the manufacturing facility is located at Barwani, Madhya Pradesh.

For FY2014-15, RTIPL reported net profit of Rs.0.51 crore on operating income of Rs.42.03 crore, as compared with profit after tax (PAT) of Rs.0.47 crore on operating income of Rs.45.42 crore in FY2013-14.

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