

Press Release

Ruhatiya Cotton and Metal Private Limited

July 13, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs. 16.77 Cr. (Enhanced from Rs.11.50)
Long Term Rating	ACUITE BBB-/Stable (Upgraded & assigned)

* Refer Annexure for details

Rating Rationale

Acuité has Upgraded the long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) on the Rs. 15.00 Crore bank facilities of Ruhatiya Cotton and Metal Private Limited (RCM). The outlook is '**Stable**'.

Further, Acuite has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.1.77 Crore bank facilities of Ruhatiya Cotton and Metal Private Limited. The outlook is '**Stable**'.

The rating upgrade is on account of improvement in the overall business and financial risk profile of the company marked by a substantial increase in the operating revenue and net cash accruals with long track record of operation and experienced management of the group.

The operating revenue of the company has grown to Rs.400.55 crores in FY2021 (Provisional) as against Rs.262.21 Crore in FY2020. The group's NCA stood at Rs.3.00 Crore as against Rs.1.85 Crore in FY2020. The group have moderate financial risk profile with Interest coverage ratio of 1.69 times in FY2021 (Provisional) as against 1.39 times in FY2020. DSCR stood at 1.65 times in FY2021 (Provisional) as against 1.36 times in FY2020.

About the Company

RCM, incorporated in 1984, by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K Agarwal, is an Akola (Maharashtra) based company and is engaged in manufacturing, trading and exporting of cotton bales. The company derives ~30 per cent of its income through processed cotton, while rest of its income is derived from trading in cotton bales and other agro-based products such as soya oil seeds, cattle feed and also trading of rice.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Ruhatiya Cotton and Metal Private Limited (RCM), Ruhatiya Spinners Private Limited (RSPL) and Omprakash Shivprakash (OPSP), hereafter referred to as 'Ruhatiya Group'. The consolidation is mainly on account of similarity in the line of business, strong operational and financial synergies and common management. Extent of Consolidation: Full.

About the Group

Ruhatiya Group comprising of Narmada Solvex Private Limited, Kaluram Food Products Private Limited, Ruhatiya Cotton & Metal Private Limited, Ruhatiya Spinners Private Limited, Ruhatiya Hospitals Private Limited, Kaluram Laminates Private Limited, Vidarbha Textile Mill Owners Association, Omprakash Shivprakash and Ruhatiya Agro Private Limited was established in 1995 by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K Agarwal. The group has presence in the oil industry, textile industry and agro industry, among others. The manufacturing facility of the group is located at Akola (Maharashtra).

Key Rating Drivers

Strengths

- **Experienced management and long track record of operation**

The group, promoted by Mr. Shivprakash Ruhatiya, Mr. Ajayprakash Ruhatiya and Mr. Shriprakash K Agarwal, have experience of over three decades in various agro-based industries. Ruhatiya Group has an established

track record of over three decades in trading of cotton and agro-based industry. The promoters' extensive industry experience has enabled the group to establish long-term relations with the customers and suppliers. Acuité believes that the promoters' entrepreneurial experience and healthy relationship with customers and suppliers will support its business risk profile over the medium term.

- **Moderate financial risk profile**

Ruhatiya Group has moderate financial risk profile marked by modest net worth, gearing and coverage indicators. The tangible net worth stood at Rs. 49.03 crore as on 31 March, 2021 (Provisional) as against Rs. 45.53 crore as on 31 March, 2020. The net worth as on March 31, 2021 (Provisional) includes unsecured loan of Rs. 36.76 crore as on 31 March, 2021 (Provisional), which is considered as quasi equity. The debt to equity ratio increased to 1.28 times as on 31 March, 2021 (provisional) as against 0.75 times as on 31 March, 2018. This is mainly due to high amount of working capital borrowing outstanding as on 31st March, 2021. The debt of Rs. 62.71 crore consists of term loan of Rs.2.67 Crore and rest of the amount as working capital borrowing. The Interest Coverage Ratio (ICR) improved to 1.69 times for FY 2021 (provisional) as against 1.39 times in FY2020. Total outside Liabilities/Tangible Net Worth (TOL/TNW) increased to 2.42 times as on March 31, 2021 (provisional) as against 0.96 times as on 31 March, 2020 mainly on account of high short term borrowings. Further, the group has net cash accruals of Rs. 3.00 crore in FY2021 (Provisional).

- **Moderate working capital nature of operation**

The working capital management of the company is moderate in FY2021 (Provisional) marked by Gross Current Assets (GCA) of 144 days in FY2021 (Provisional) as against 110 days in FY2020. The inventory and debtor levels stood at 23 days and 103 days in FY2021 (Provisional) as against 18 and 36 days in FY2020, respectively. High GCA days is mainly due to high amount of debtors at the end of the year which is due to higher sales in the last quarter of the financial year. The creditor days stood at 48 days in FY2021 (Provisional) as against 13 days in FY2019. The creditors include the outstanding LC amount which is due for payment. The average utilization of bank limits stood at ~85 per cent in the last six months ending April 2021.

Acuité believes that the working capital requirements will continue to remain moderate over the medium term on account of high debtor days.

Weaknesses

- **Profitability is exposed to volatility in raw material prices and climatic conditions**

Ruhatiya Group derives ~73 per cent of its income from the textile industry. Cotton being a seasonal crop, the production of the same is highly dependent upon the monsoon. Thus, inadequate rainfall affects the availability of cotton in adverse weather conditions. Further, cotton prices are highly regulated by the government through MSP (Minimum Support Price). However, the purchase and selling prices depend on the prevailing demand-supply situation restricting bargaining power with suppliers and customers. Any adverse movement of cotton prices further impacts profitability. The EBITDA margin has declined to 1.95 per cent in FY2021 (provisional) from 2.73 per cent in FY2020.

- **Competitive and fragmented industry**

The group operates in a highly competitive and highly fragmented textile industry and faces competition from established brands as well as unorganized players. This impacts the bargaining power of the group and margins, thereof.

Rating sensitivity

- Further improvement in operating income and profitability will lead to strong financial risk profile.
- Unsecured loan (Quasi Equity) amounted to Rs.36.76 crores is a key rating sensitive factor.

Material Covenant

None

Liquidity position: Adequate

The group has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. In FY2021 (Provisional), the group have generated a net cash accruals of Rs.3.00. The cash accruals of the company are estimated to remain in the range of around Rs.3.12 Crore to Rs.4.20 Crore during FY2022-24 against CPLTD in the range of Rs.0.40-0.80 Crore each year. Group's working capital operations are moderate marked by gross current asset (GCA) days of 144 days in FY2021 (Provisional). As a result the average utilization of bank limits stood moderate at ~85 per cent in the last six months ending March, 2021. Company maintains unencumbered cash and bank balances of Rs.0.44 Crore as on 31 March 2021.

(Provisional). The current ratio stands low at 1.35 times as on 31 March 2021 (Provisional).

Outlook: Stable

Acuite believes that Ruhatiya Group will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues, while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the group's financial risk profile and liquidity position

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	400.55	262.21
PAT	Rs. Cr.	1.09	0.58
PAT Margin	(%)	0.27	0.22
Total Debt/Tangible Net Worth	Times	1.28	0.75
PBDIT/Interest	Times	1.69	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>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-61.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-October-2019	Cash Credit	Long term	11.50*	ACUITE BB+/Stable (Reaffirmed)
20-November-2018	Cash Credit	Long term	11.50*	ACUITE BB+/Stable (Assigned)

*Sub-limit of PC/FDBP Rs.11.50 crore.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00* (Enhanced from Rs.11.50)	ACUITE BBB-/Stable (Upgraded)
Term Loan	March-2020	Not available	June-2024	1.77	ACUITE BBB-/Stable (Assigned)

*Sub-limit of PC/FDBP Rs.11.50crore.

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About Acuité Ratings & Research:

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