

Press Release

Ramkrushna Spinning Mills Private Limited

March 05, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 47.80 crore
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the above mentioned bank facilities of Rs.47.80 crores for Ramkrushna Spinning Mills Private Limited (RSMPL). The outlook is '**Stable**'.

Ramkrushna Spinning Mills Private Limited (RSMPL) based Amreli (Gujarat) was incorporated as a private limited company in 2012. The company was promoted by Mr. Jayantibhai Chatrola, Mr. Arvind Bhai Daslaniya along others. The company is engaged into manufacturing of cotton yarn with an average count of 30s and 40s. The manufacturing facilities are located at Amreli with 18240 spindles and also a ginning unit through which the company can press 200 bales per day i.e around 50,000 bales per year at the same location for captive consumption.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of RSMPL to arrive at the rating.

Key Rating Drivers:

Strengths

• Experienced management

The key promoters, Mr. Jayantibhai Chatrola and Mr. Arvind Bhai Daslaniya of the company possess more than two decades of experience in the textile spinning and ginning industry. Acuité believes that the extensive experience of the promoters have helped the company in scaling up of operations and establish long standing relationship with their key suppliers and customers and secure repeat orders.

• Efficient working capital operations

The company has prudent working capital management as evident from Gross Current Asset (GCA) of 84 days in FY2019 as compared to 83 days in FY2018. Inventory days stood at 66 in FY2019 as compared to 62 days in FY2018. The debtor days improved to 12 days in FY2019 as compared to 18 days in FY2018. Moreover, the company's comfortable working capital operations is demonstrated by ~64 per cent utilization in the working capital limit for the twelve months ended Oct, 2019. Acuité believes that the company's working capital operations will continue to be efficient and is expected to be at similar levels over the medium term.

• Average financial risk profile

The financial risk profile of the company is modest marked by moderate net worth, high gearing and healthy debt protection metrics. The net worth of the company stood modest at Rs.18.21 crore in FY2019 as compared to Rs. 16.49 crore in FY2018. The Debt-equity (gearing) stood moderate at 2.76 times in FY2019 as compared to 3.19 times in FY2018 due to decrease in long term borrowings. The total debt of Rs. 50.28 crore in FY2019 consists of term loan of Rs. 25.33

crore (including current portion of long term debt of Rs.6.06 Cr.), unsecured loan of Rs.13.09 crore and working capital loans of Rs. 11.85 crore. The interest coverage ratio stood comfortable at 6.02 times as compared to 3.25 times in FY2018 and DSCR stood at 1.33 times in FY2019 as compared to 2.72 times in FY2018. The Net cash accruals to total debt (NCA/TD) stood at 0.17 times in FY2019 as against 0.19 times in FY2018. Acuité believes the financial risk profile of the company to improve over the medium term backed by healthy net cash accruals.

Weaknesses

• Decline in operating profitability

The company's operating margin stood at 7.40 percent during FY19 vis-à-vis 11.45 percent during the previous year. The decline in operating margin is on account of rise in prices of cotton bales resulting in higher procurement cost which could not be passed on to customers. Cost of RM as a percentage of revenues increased to 83.94 per cent in FY19 as compared to 77.68 per cent in FY18.

Prices of cotton bales increased due to lower production of cotton because of low rainfall in many key cotton growing areas in FY19. Gujarat had rain deficit of 28 percent in FY19.

However, the company has achieved operating margin of 10.70 percent in 10MFY20 (P). The increase in operating margin in 10MFY20 is on account of fall in prices of cotton bales driven by good monsoon in the said period.

Acuité believes that the company's operating margins will remain vulnerable to raw material price fluctuation.

• Highly competitive and fragmented industry

RSMPL operates in textile ginning and spinning industry which is highly fragmented. The Indian textile industry is highly competitive and marked by presence of large number of unorganized and organized players. Further, industry has low entry barriers increasing competition for players like RSMPL, thereby putting pressure on bargaining power with customers.

Rating Sensitivity

- Efficient working capital management
- Improvement in operating profitability

Material Covenants

None

Liquidity Profile

The company's liquidity profile is adequate marked by moderate net cash accruals as against its debt obligations. The company generated cash accruals of Rs. 8.64 crore in FY19 to repay its maturing debt obligations of Rs.6.05 crore over the same period. Moreover, the company has comfortable working capital operations as evident from Gross Current Asset (GCA) of 84 days in FY2019 as compared to 83 days in FY2018. The current ratio stood at 1.63 times as on March 31, 2019 and the fund-based limit remains utilised at 64 percent over the twelve months ended Oct, 2019. The company maintains unencumbered cash and bank balances of Rs.3.90 crore as on March 31, 2019. Acuité believes that the enhanced cash accruals will boost the liquidity of the company over the medium term.

Outlook: Stable

Acuité believes that the company's outlook will remain stable over the medium term backed by its experienced management. The outlook may be revised to 'Positive' if the company reports substantial increase in operating revenues while improving its margins and cash accruals. Conversely, the outlook may be revised to 'Negative' in case of any inefficiency in its working capital cycle leading to deterioration of its financial risk profile and liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	141.74	124.79
PAT	Rs. Cr.	1.72	1.77
PAT Margin	(%)	1.21	1.42
Total Debt/Tangible Net Worth	Times	2.76	3.19
PBDIT/Interest	Times	6.02	3.25

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-Dec-2018	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loans	Long Term	28.13	ACUITE BBB-/Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Short Term	2.67	ACUITE A3 (Assigned)

*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	7.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loans	March 31, 2015	Not Applicable	June, 2023	19.44	ACUITE BBB-/Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.67	ACUITE A3 (Reaffirmed)
Proposed facility	Not Applicable	Not Applicable	Not Applicable	8.69	ACUITE BBB-/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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