

Press Release

Ramkrushna Spinning Mills Private Limited

June 01, 2021

Rating Reaffirmed & Assigned



Total Bank Facilities Rated*	Rs.47.80 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 34.45 Cr and assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 13.35 Cr bank facilities of Ramkrushna Spinning Mills Private Limited (RSMPL). The outlook is '**Stable**'.

The rating reaffirmation takes into cognizance of steady performance expected over the near term, supported by the recovery in demand in the spinning industry, the experience of the promoters and management in the spinning industry and established relationship with its clientele, which ensures repeat orders. These rating strengths are partially offset by its working capital intensive nature of operations and above-average financial risk profile characterised by high leveraging and moderate coverage indicators. The rating also constraints inherent cyclicity associated with the Cotton Spinning sector and the company's profitability is vulnerable to fluctuations in cotton and cotton yarn prices.

Incorporated in 2012, Ramkrushna Spinning Mills Private Limited (RSMPL) is based at Amreli (Gujarat) promoted by Mr. Anilkumar Amarshibhai Dasania along with the other 11 directors. The company is engaged in manufacturing of cotton yarn with an average count of 20's to 40's. The manufacturing facilities are located at Amreli (Gujarat) with 18,240 spindles and also a ginning unit through which the company can press 200 bales per day.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of RSMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in spinning industry**

RSMPL was incorporated in 2012, engaged in Manufacturing of cotton yarn. RSMPL promoted by Mr. Anilkumar Amarshibhai Dasania along with other 11 the directors who have nearly two decades in the spinning industry, by being associated with other entities. The established track record in the spinning industry coupled with the extensive experience of the management lends stability operations. This has helped in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. Acuite believes that RSMPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

- **Efficient working Capital Management**

RSMPL's working capital cycle is efficiently managed with gross current assets (GCA) days in the range of 74-83 days over the last 3 years ending March, 2020. The efficient GCA underpins the moderate inventory levels in the range of 62-67 days and low debtor days of 0-18 days over the last 3 years ending March, 2020. The creditors are low as the procurement is done on cash and carry basis or through an inventory financing scheme. Despite lower support from creditors, the bank lines have been moderately utilized at an average of 55 percent over the last 12 months ending March 2021. Acuite believes that RSMPL's operations will remain efficiently managed over the medium term.

Weaknesses

- **Above-average financial risk profile**

RSMPL's financial risk profile is above average, marked by leveraged capital structure and moderate debt protection metrics. Networth was moderate at Rs.18.82 Cr as on March, 2020 against Rs.18.21 Cr in the previous year. RSMPL had a gearing remained between 2.15-3.19 times and total outside liabilities to total net worth (TOL/TNW) remained between of 2.26-3.39 times over the last 3 years ending March, 2020. RSMPL's debt protection metrics are moderate marked by interest coverage and Net cash accruals to total debt (NCATD) of 3.52 times and 0.17 times as on March, 2020 against 2.82 times and 0.16 times as on previous year end. Acuite believes that in absence of any major debt-funded capital expenditure; the financial risk profile is expected to remain at similar levels over the medium term.

- **Stagnant revenues and declined profitability over the past three years**

The company's total operating income has remained stagnant in the range of Rs. 139-144 Cr over the past five years. The operating income stood at Rs.139 Cr in FY2021 (provisional) as against Rs.141.42 Cr in FY2020 and Rs.144.74 Cr in FY2019. The RSMPL's operating margins declined to 6.21 per cent in FY2020 as against 9.32 per cent in FY2019 as against 11.45 per cent in FY2018. Acuite believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

- **Susceptibility of operating margins to volatility in raw material prices**

RSMPL's key raw material, cotton, constitutes about 80-85% of its raw material cost, is a highly seasonal commodity and good quality cotton is available only during the peak cotton season i.e. October to March. Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Further, spinning industry is highly fragmented and competitive with the presence of a large number of organised and unorganised players.

Rating sensitivity

- Scaling up of operations, while achieving sustained improvement in operating margins.
- Stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Liquidity Position: Adequate

RSMPL's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its debt obligations and comfortable current ratio. RSMPL has generated net cash accruals of Rs.6.41 Cr in FY2020 against debt obligation of Rs.6.06 Cr. The company is expected to generate adequate Net Cash Accruals (NCA) in the range of Rs.7-9 Cr against CPLTD of Rs.6-7 Cr over the medium term. The average fund-based working capital utilization stood between 55 percent for the past 12 months ended March 2021. The Company has maintained unencumbered cash and bank balances Rs.4.08 Cr March 31, 2020. The current ratio stood Comfortable at 1.76 times as on March, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that RSMPL will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case RSMPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	141.42	144.74
PAT	Rs. Cr.	0.61	1.72
PAT Margin	(%)	0.43	1.19
Total Debt/Tangible Net Worth	Times	2.15	2.76
PBDIT/Interest	Times	3.52	2.85

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
05-March-2020	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loans	Long Term	19.44	ACUITE BBB-/Stable (Reaffirmed)
	Bank guarantee	Short Term	2.67	ACUITE A3 (Reaffirmed)
	Proposed Bank facility	Long Term	8.69	ACUITE BBB-/Stable (Reaffirmed)
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	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	2.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loans	March, 2015	Not Applicable	June, 2023	17.91	ACUITE BBB-/Stable (Reaffirmed)

Term Loans	July 2016	Not Applicable	July, 2023	0.64	ACUITE BBB-/Stable (Assigned)
Term Loans	January 2021	Not Applicable	January 2026	4.00	ACUITE BBB-/Stable (Assigned)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	4.87	ACUITE BBB-/Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.67	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.71	ACUITE BBB-/Stable (Reaffirmed)

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