

Press Release

Ramkrushna Spinning Mills Private Limited

August 26, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.67	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	45.13	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	47.80	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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. 47.80 Cr of Ramkrushna Spinning Mills Private Limited (RSMPL). The outlook is '**Stable**'

Rationale for Reaffirmation

The rating reaffirmation is driven by the improvement in operating performance of RSMPL in FY2022. The operating income of the Company stood at Rs. 204.97 Cr in FY2022 (Prov.) as against Rs.139.36 Cr in FY2021. The operations continue to remain efficiently managed marked by modest working capital cycle and low bank limit utilisation. The rating is constrained on account of inherent cyclicalities associated with the cotton spinning sector and vulnerability of the company's profitability to fluctuations in cotton and cotton yarn prices.

About the Company

Incorporated in 2012, Ramkrushna Spinning Mills Private Limited (RSMPL) is based at Amreli (Gujarat) promoted and managed by Mr. Anilkumar Amarshibhai Daslania along with 11 other 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 is promoted and managed by Mr. Anilkumar Amarshibhai Daslania along with 11 other directors who have nearly two decades of experience in the spinning industry. The established track record operations of almost a decade coupled with the extensive experience of the management, has helped RSMPL in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business.

Acuité believes that RSMPL will continue to benefit from the extensive experience of its promoters, and established relationships with its clients over the medium term.

Efficient working capital management

The operations of the company are managed efficiently marked by low GCA days of 60 days for FY2022(prov.) as against 43 days in FY2021. The GCA days are majorly on account of inventory levels of 31 days for FY2022(prov.) compared against 30 days for FY2021. The debtor days stood at 21 days for FY2022(prov.) against 1 day for FY2021. The average utilization of the working capital limits of the company remained on the lower side of ~32.81 percent in last nine months ended May' 22.

Acuité believes that RSMPL's operations will continue to remain efficiently managed over the medium term.

Weaknesses

Moderate financial risk profile

RSMPL has moderate financial risk profile marked by tangible net worth of Rs.31.94 crore as on 31 March, 2022(prov.) as against Rs.22.39 crore as on 31 March, 2021. The gearing level of the company remained moderate at 1.44 times as on 31 March, 2022(prov.) as against 1.68 times as on 31 March, 2021. The total debt outstanding of Rs.45.99 crore consists of working capital borrowings of Rs.2.23 crore, unsecured loan from promoters of Rs.9.24 crore and term loan obligations of Rs.34.52 crore as on 31 March, 2022.(prov.) The coverage ratios of the company remained moderate with Interest Coverage Ratio (ICR) of 5.46 times for FY2022(prov.) against 4.64 times for FY2021. Also, the Debt Service Coverage Ratio (DSCR) stood at 1.65 times for FY2022(prov.) against 1.27 times for FY2021. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 1.53 times as on March 31, 2022(prov.) against 1.81 times as on March 31, 2021. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.31 times for FY2022(prov.) as against 0.22 times for FY2021.

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, carryover 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 Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

RSMPL has adequate liquidity position marked by adequate net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.14.24 crore in FY2022(prov.) compared against maturing debt obligations of Rs.7.20 crore for the same period. The cash accruals of the company are estimated to remain around Rs.19-21 crore during 2023-24 period while its matured debt obligations are estimated to be in the range of 3.5 – 9.6 crore during the same period. The company reliance on working capital borrowings is on lower side marked by average utilization of ~32.81 percent in last nine months ended May' 22. Furthermore, the company maintains unencumbered cash and bank balances of Rs.3.42 crore as on March 31, 2022 and the current ratio also stood at 2.39 times as on March 31, 2022. Acuite expects the liquidity profile of RSMPL to remain adequate marked by moderate cash accruals against debt repayment obligations.

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 improvement in revenues and sustainable profitability given the limited capacity available. 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 leading to deterioration of its financial risk profile and liquidity

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	204.97	139.36
PAT	Rs. Cr.	7.95	3.57
PAT Margin	(%)	3.88	2.56
Total Debt/Tangible Net Worth	Times	1.44	1.68
PBDIT/Interest	Times	5.46	4.64

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
	Working Capital Term Loan	Long Term	4.87	ACUITE BBB- Stable (Assigned)

01 Jun 2021	Term Loan	Long Term	17.91	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	8.71	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.67	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.64	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Assigned)
05 Mar 2020	Proposed Bank Facility	Long Term	8.69	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.67	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	19.44	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 Loan	Long Term	28.13	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	2.67	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.67	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.71	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	31-03-2015	10.30	30-06-2023	17.91	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	18-07-2016	10.30	31-07-2023	0.64	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	18-01-2021	10.30	31-01-2026	4.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.87	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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