



Press Release
RAMKRUSHNA SPINNING MILLS PRIVATE LIMITED
November 24, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	46.30	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	1.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	47.80	-	-

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 bank facilities of Ramkrushna Spinning Mills Private Limited (RSMPL). The outlook has been revised from '**Stable**' to '**Negative**'.

Rationale for rating re-affirmation and change in outlook.

The rating reaffirmation and revision in outlook take into consideration improved revenue, albeit deterioration in profitability, and stable financial performance of RSMPL in FY2023. The revenue grew by ~13 percent to Rs.229.22 Cr in FY2023 from Rs.202.61Cr in FY2022 while recording a significant deterioration in operating profitability. The operating margin stood at 3.11 percent in FY2023 and 8.20 percent in FY2022. The decline in profitability is due to increased material costs, primarily raw cotton and cotton bales (which account for ~ 85-90 percent of operating costs) during most part of FY2023, coupled with lower price realisations. In H1FY2024, RSMPL achieved revenue of Rs. 110.09 Cr and an operating margin of 3.63 percent. The volumes in H1FY2024 have marked marginal improvement in comparison to FY2023 levels; however, price realisations have declined further. The deterioration in profitability is expected to affect RSMPL's cash accrual generation and further moderation in the debt service coverage ratio on account of the higher debt-repayment obligation for FY2024. The DSCR stood at 1.10 times in FY2023, against 1.49 times in FY2022.

Further, the gearing levels improved to 1.18 times as of March 31, 2023, against 1.61 times as of March 31, 2022. In the absence of any major debt-funded capital expenditure, RSMPL is expected to maintain a moderate financial risk profile over the medium term. The working capital operations remain efficient, with GCA days at 54 days in FY2023 against 58 days in FY2022, with moderate reliance on working capital limits.

Going ahead, RSMPL's ability to achieve stable growth in revenues and improvement in profitability while avoiding any significant strain on cash accrual generation and debt servicing capability will remain a key rating monitorable.

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.

Unsupported Rating
Not Applicable

Analytical Approach

Acuité 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.

Moderate financial risk profile

RSMPL has moderate financial risk profile marked by tangible net worth of Rs.31.44 Cr as on 31st March 2023 as against Rs.28.60 Cr as on 31st March 2022. The gearing level of the company stood moderate at 1.18 times as on 31 March 2023 as against 1.61 times as on 31st March 2022. The total debt outstanding of Rs.37.09 Cr consists of working capital borrowings of Rs.4.37 Cr, unsecured loan from promoters of Rs.9.23 Cr and term loan obligations of Rs.23.49 Cr as on 31st March 2023. The debt protection metrics of the company recorded a moderation on account of thin profitability, however, remained stable. The ICR and DSCR stood at 4.01 times and 1.10 times in FY2023 against 5.44 times and 1.49 times in FY2022 respectively. The total outside liabilities to tangible net worth (TOL/TNW) improved to 1.36 times as on 31st March 2023, against 1.82 times as on 31st March 2022. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.25 times for FY2023 as against 0.27 times for FY2022. A 1.2MW solar power plant with project cost of Rs.5.83 Cr has been commissioned in the month of November 2023. Of the total cost, Rs.4.87 Cr has been funded through term loan (Union Bank of India) and the rest by internal accruals. The financial risk profile of the company is expected to remain at moderate levels in absence of major debt-funded capital expenditure.

Efficient Working Capital Management

The operations of the company are efficient marked by low GCA days of 54 days for FY2023 as against 58 days in FY2022. The low GCA days is majorly on account of low inventory levels of 38 days for FY2023 and 30 days for FY2022. The debtor days also stood low at 6 days for FY2023 against 12 days for FY2022. The company's reliance on working capital borrowings is moderate marked by average utilization of fund-based limits at ~71 percent in the last 7 months ending October 2023.

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

Weaknesses

Deteriorating operating margins, albeit stable operating income

RSMPL reported a significant decline in operating profit margin to 3.11 percent in FY2023 as against 8.30 percent in FY2022. The company also reported loss at operating PBT levels, however, remained net profitable primarily due to other income comprising of SGST concession subsidy. The decline in margins is due to increase in materials cost for the company. The raw material comprising of cotton bales and raw cotton witnessed an uptrend in prices during most part of FY2023 against subdued realisations. The company's revenue

stood at Rs.229.22 Cr in FY2023 registering a growth of ~13 percent compared to revenue of Rs.202.61 Cr in FY2022. In H1FY2024, RSMPL recorded a revenue of Rs.110.0 Cr with operating margin of 3.63%.

The power and fuel costs are expected to come down further as a solar power plant has been commissioned in the month of November 2023, which will result in ~66% power needs being met through inhouse power generation.

Going ahead, company's ability to improve operating margins in the near term will remain a key rating monitorable.

Susceptibility of operating margins to volatility in raw material prices

RSMPL's key raw material, cotton, constitutes about 85-90% 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

- Stable operating revenue with improvement in profitability
- Deterioration in liquidity and financial risk profile.

All Covenants

Not Applicable

Liquidity Position

Adequate

RSMPL has an adequate liquidity position. It generated sufficient net cash accruals to its maturing debt repayment obligations. Cash accruals stood at Rs.9.13 Cr in FY2023 against its maturing debt obligations of Rs.8.00 Cr. The company's reliance on working capital borrowings is moderate marked by average utilization of fund-based limits at ~71 percent in the last 7 months ending October 2023. Furthermore, the company maintains unencumbered cash and bank balances of Rs.3.40 crore as on March 31, 2023. The current ratio stood at 2.10 times as on March 31, 2023.

The cash accruals of the company are estimated to remain in the range of ~ Rs.9.29 Cr– 13.05 Cr during FY2024 & FY2025 against maturing debt-repayment obligations of Rs.9.05 Cr and 5.91 Cr respectively. The expected cash accrual generation in FY2024 is susceptible to improvements in the operating margins, and any significant deviation from the expected levels will lead to insufficient cash accruals against the maturing repayment obligation in FY2024. However, support from the promoters in such exigencies is expected.

Outlook: Negative

Acuite believes that the company will maintain a 'Negative' outlook over the medium term on account of expected strain on cash accruals generation capacity on account of thin profitability against its maturing debt-repayment obligations affecting its liquidity and financial risk profile. The outlook may be revised to 'Stable' if the company showcases higher than expected growth in revenues and improvement in profitability easing the strain on cash accruals generation capacity and maintaining moderate financial risk profile and adequate liquidity position. Conversely, the rating may be downgraded, if RSMPL exhibits a lower-than-expected growth in revenues and profitability, leading to significant deterioration in the liquidity and financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	229.22	202.61
PAT	Rs. Cr.	2.84	6.21
PAT Margin	(%)	1.24	3.07
Total Debt/Tangible Net Worth	Times	1.18	1.61
PBDIT/Interest	Times	4.01	5.44

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Aug 2022	Working Capital Term Loan	Long Term	4.87	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.67	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	17.91	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	7.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	8.71	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.64	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
01 Jun 2021	Working Capital Term Loan	Long Term	4.87	ACUITE BBB- Stable (Assigned)
	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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	16.99	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.87	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.17	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.27	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.57	ACUITE BBB- Negative Reaffirmed Stable to Negative
								ACUITE BBB-

Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.43	Negative Reaffirmed Stable to Negative
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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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