

Press Release

Ranga Weaves India Private Limited

D-U-N-S® Number: 67-739-0925



January 30, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE BBB**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 50.00 crore bank facilities of Ranga Weaves India Private Limited. The outlook is '**Stable**'.

RWPL, incorporated in 2001, is a closely held private limited company, promoted by Mr. Lakshmanan Giri along with other family members. RWPL manufactures grey fabric and its manufacturing facility is located at Vairapalayam in Erode (Tamil Nadu). It has 82 airjet looms (weaving plant) with 20 lakh meters capacity (mts) per month. Further, RWPL has captive windmill units of 2 mega-watts (MW) at Kayathar Wind Park in Tuticorin (Tamil Nadu).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RWPL to arrive at the rating.

Key Rating Drivers

Strengths

- Extensive experience of the promoters in the textile industry and established relationships with suppliers**

The promoters are vintage people with presence in the textile industry for nearly two decades. This helped in build healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. It helped in improving the revenues of the company to a compound annual growth rate (CAGR) of about 12.3 percent from Rs.109.04 crore in FY2016 to Rs.137.38 crore in FY2018. The increase in revenue is attributed to increase in customer base year-over-year. Further, RWPL manufactures grey fabrics against confirmed orders which provide revenue visibility as well as low receivable risk. Acuité believes that RWPL is expected to enjoy the benefit of proximity to the cotton growing area along with the promoters' experience and local presence in improvement of its business risk profile over the medium term.

- Improved revenue growth and improving EBITDA margins**

RWPL revenue has shown Y-O-Y growth over the last 3 years ending March, 2018 from Rs.109.04 crore in FY16 to Rs.139.62 crore in FY18; reflecting a CAGR of about 13 percent for over three years through FY2018. For eight months through November 2018, RWPL has booked revenues of Rs.100.00 crore. The revenue growth and improvement in the profitability margins are driven by continuous customer addition, established presence and diversification into new markets. EBITDA margins have improved from 9.96 percent in FY16 to 11.87 percent in FY18. Acuité believes that RWPL's revenue from manufacturing is expected to remain at the current level in the medium term, due to optimum capacity utilisation of its installed capacity of 82 looms at about 95 percent coupled with absence of any significant capex for capacity expansion in the medium term.

- Moderate financial risk profile**

RWPL has comfortable financial risk profile marked by moderate capital structure and comfortable debt protection measures. RWPL's capital structure is moderate marked by moderate gearing and

total outside liabilities to total net worth (TOL/TNW) of 1.55 times and 2.23 times as on March 31, 2018 as against 1.93 times and 2.66 times as on March 31, 2017. Its net worth is modest at around Rs.29.22 crore as on March 31, 2018 as compared to Rs.23.49 crore as on March 31, 2017. The net worth has improved due to healthy accretion to reserves. The comfortable profitability coupled with moderate gearing levels has resulted in comfortable debt protection metrics with interest coverage of 4.41 times and NCA/TD of 0.22times for FY2018. Acuité believes that with moderate profitability margins, and no major significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Moderate working capital operations**

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 139 days as on March 31, 2018 as against 131 days as on March 31, 2017. The company maintains an inventory of about 30 to 40 days and gives credit period of 60-90 days to its customers. Inventory days stood at 35 as on March 31, 2018, as against 24 days as on March 31, 2017. Debtor days stood at 92 as on March 31, 2018 as against 89 days as on March 31, 2017. Moderate working capital management and accruals lead to moderate utilisation of its working capital limits at about 86 percent over the past six months ended November 2018. As the raw materials are seasonally available; however, manufacturing and sales operations are carried out throughout the year leading to working capital intensive operations throughout the period.

- **Moderate scale of operations and susceptibility to volatility in input prices**

The yarn industry is fragmented and dominated by numerous small, unorganised players and a few large players. With operating income of Rs.139.60 crore in FY2018, scale remains moderate. The key raw material, i.e. cotton yarn, is a seasonal commodity. The input costs of spinners usually align themselves to variations in the cotton yarn realisations with a significant time lag rendering margins vulnerable to volatility in input costs. Further, Cotton availability is highly dependent on monsoon and limited product diversification which limits the bargaining power of yarn players. The profit margins are also exposed to fluctuations in raw cotton-linked prices of cotton yarn, which is depend upon various factors such as seasonality, climatic conditions, international demand and supply situation and export policy.

Liquidity

Liquidity of RWPL is moderate marked by generation of cash accruals of Rs.10.16 crores in FY2018; RWPL is expected to generate cash accruals in the range of Rs.9.50-12.00 crores over the medium term against its repayment obligations of Rs.5.00 crores. Its bank lines though highly utilised, however there is flexibility to an extent of 15 per cent of sanctioned bank lines on an average over the past six months through November 2018 to meet any exigency. RWPL does regular capex of about Rs.3.00 to 5.00 crores. Moderate cash accruals vis-à-vis its repayment obligations and capex and unutilized bank lines keep the liquidity profile at moderate levels.

Outlook: Stable

Acuité believes that RWPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	139.62	121.55	109.04
EBITDA	Rs. Cr.	16.57	12.61	10.86
PAT	Rs. Cr.	5.73	4.36	4.00
EBITDA Margin	(%)	11.87	10.37	9.96
PAT Margin	(%)	4.11	3.59	3.67
ROCE	(%)	16.51	15.64	31.61
Total Debt/Tangible Net Worth	Times	1.55	1.93	1.67
PBDIT/Interest	Times	4.41	4.57	3.38

Total Debt/PBDIT	Times	2.71	3.57	2.87
Gross Current Assets (Days)	Days	139	131	117

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

None

Any other information

Note

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***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	28.00	ACUITE BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	14.84	ACUITE BBB / Stable
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.26	ACUITE A3+
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BBB / Stable

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About Acuité Ratings & Research:

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