Press Release

Ranga Weaves India Private Limited

February 18, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.73.00 Cr. (Enhanced from Rs.50.00 Cr.)
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed a long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 73.00 Cr for bank facilities of Ranga Weaves India Private Limited. The outlook is **'Stable'**.

The rating reaffirmation reflects sustenance of the revenue growth in line with the estimates. RWPL reported revenues of Rs.146.13 crore in FY2019 as against Rs.139.62 crore in FY2018 backed by repeat orders from the customers. Further, the ratings continue to reflect the experienced management, established track record of operations and moderate financial risk profile. However, it is constrained by working capital intensive operations and susceptibility of margins to volatility in raw material prices and high competition.

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 135 airjet looms (weaving plant) with 45 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 taken a standalone view of the business and financial risk profile of RWPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations**

  RWPL was incorporated in 2001 promoted by Mr. Lakshmanan Giri and his wife Mrs. G. Subhagiri. The company has a competent management supported by a team of well qualified and experienced second line personnel. The promoters have presence in the textile industry for nearly two decades. This has helped in building healthy relationships with its suppliers and customers to ensure a steady raw material supply and repeat business. The company has grown at a CAGR of about 10.25 percent for over three years through FY2019 and the operating margins have remained stable in the range of 11-12 percent.

  The revenue growth and improvement in the profitability margins are driven by continuous customer addition, established presence and diversification into new markets. RWPL's revenue from manufacturing is expected to improve due to enhanced capacity utilisation from 85 looms to 135 during current financial year. Further RWPL is expected to enjoy the benefit of proximity to the cotton growing area along with the promoters' experience and local presence is expected to aid in improving its business risk profile over the medium term.

- **Moderate financial risk profile**

  RWPL's financial risk profile is moderate, marked by moderate networth, capital structure and debt protection metrics. Its net worth is modest at around Rs.35.55 crore as on March 31, 2019 as compared to Rs.29.22 crore as on March 31, 2018; improved owing to accretion to reserves. RWPL's capital structure is moderate marked by moderate gearing and total outside liabilities to total net worth (TOL/TNW) of 1.01 times and 1.66 times as on March 31, 2019 as against 1.55 times and 2.23 times as on March 31, 2018. The comfortable profitability coupled with moderate gearing levels has resulted in comfortable debt protection metrics with interest coverage of 4.20 times and NCA/TD of 0.29 times for FY2019 as against 4.41 times and 0.22 times respectively for FY2018.

  During the current year, the processing capacity was enhanced from 85 Air-Jet looms to 135 Air-Jet looms with an investment of about Rs.24 crore funded by term loans of Rs.21.00 crore and rest through internal accruals. Further its incremental working capital requirement over the same period has been around Rs.10 crore to support the increase in scale of operations. The current capex supports about 10-15 percent revenue growth over the medium term. RWPL's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.11.00-13.50 crore, which are comfortable to service its repayment obligations about Rs.6.00 crore during same period while supporting of the routine capex and incremental working capital requirements. As a result, the gearing however is expected to moderate to around 1.20 times as on March 31, 2021 on back of absence of any major debt funded capex plan and accretion to reserves.

  Acuité believes that the company will maintain its financial risk profile on account of on account of its improving scale of operations stable operating matrices and no additional debt funded capex plans over the medium term.

Weaknesses

- **Working capital intensive nature of operations**

  RWPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 131 days for FY2019 as against 139 days for FY2018. 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 29 FY2019, as against 35 days as on March 31, 2018. Debtor days stood at 99 as on March 31, 2019 as against 92 days as on March 31, 2018. Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 84 percent over the past six months ended December 2019. 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.

  Acuité believes that the working capital cycle will continue to look intensive over the medium term on account of business cycle of cotton industry

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

  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.

Rating sensitivity

- Scaling up of operations, while achieving sustained improvement in operating margins.
- Any Deterioration in working capital leading to higher reliance on external borrowings

Material Covenants

None

Liquidity Position: Adequate

RWPL's liquidity is adequate marked by comfortable cash accruals to its debt obligations. It reported cash accruals of Rs.10.26 crore in FY2019, its accruals are expected in the range of Rs11.00-13.50 crores in FY2020-22 against its repayment obligations of Rs.6 crore during the same period. The operations are working capital intensive as reflected by its gross current asset (GCA) days of 131 in FY 2019, leading to moderate utilisation of its limits at about 84 per cent during the last six months period ended December

2019. The current ratio of the company stands at 1.25 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term. Despite incurred capex about Rs.24.00 crore; its cash accruals is expected to adequate over the medium term.

Outlook: Stable

Acuité believes that RWPL will maintain a 'Stable' outlook over the medium term from its promoter's entrepreneurial experience. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or any significant debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	146.13	139.62
PAT	Rs. Cr.	6.33	5.73
PAT Margin	(%)	4.33	4.11
Total Debt/Tangible Net Worth	Times	1.01	1.55
PBDIT/Interest	Times	4.20	4.41

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

None

Any other information

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/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Jan-2019	Cash Credit	Long Term	28.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	14.84	ACUITE BBB/Stable (Assigned)
	FBN/FBP/FBD/PSFC/FBE	Short Term	3.50	ACUITE A3+ (Assigned)
	Bank guarantee	Short Term	2.26	ACUITE A3+ (Assigned)
	Proposed Term Loan	Long Term	1.40	ACUITE BBB/Stable (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	38.00 (Enhanced from Rs.28.00 Crs)	ACUITE BBB/Stable (Reaffirmed)
Term Loans	22-02-2019	Not Applicable	28-02-2026	30.37 (Enhanced from Rs.14.84 Crs)	ACUITE BBB/Stable (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.85 (revised from Rs.2.26 Crs)	ACUITE A3+ (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.28 (revised from Rs.1.40 Crs)	ACUITE BBB/Stable (Reaffirmed)

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