

Press Release

Ranga Weaves India Private Limited

May 14, 2021

Rating Reaffirmed, withdrawn



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

* Refer Annexure for details

Rating Rationale

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

The rating reaffirmation takes cognizance of the substantial growth expected in the operating income and stability in operating margins over the medium term. RWPL has consistently shown healthy operating performance, driven by moderate revenue growth, stable operating margin. The company's revenues grew at a compounded annual growth rate (CAGR) of 11.58 percent during the period between FY2017-FY2020 (Operating income of Rs. 162.95 Cr in FY2020) supported by capacity expansion. Although, the company's operating income is expected to decline by 10-14 percent in FY2021 owing to the outbreak of Covid-19; the revenue run rate is expected to recover to pre-Covid levels FY2022 onwards. Operating margin remained stable at over 11-12 percent in the past and is likely to remain at similar level, going forward. The rating takes into account its established track record in the civil construction sector and extensive experience of the promoters and moderate financial risk profile. The rating albeit is constrained by its 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 92 airjet looms (weaving plant) with 60 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

Acuite 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 10.58 percent for over three years through FY2020 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 82 looms to 192 looms during the last two years ending FY2021. 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 network, capital structure and debt protection metrics. Its net worth is moderate at around Rs. 43.18 Cr as on March 31, 2020 as compared to Rs. 35.55 Cr as on March 31, 2019; 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 1.48 times and 2.16 times as on March 31, 2020 as against 1.01 times and 1.66 times as on March 31, 2019. The comfortable profitability coupled with moderate gearing levels has resulted in comfortable debt protection metrics with interest coverage of 4.04 times and NCA/TD of 0.19 times for FY2019 as against 4.20 times and 0. 0.29 time, respectively, for FY2019. During the current year of FY2021, the processing capacity was enhanced from 135 Air-Jet looms to 192 Air-Jet looms with an investment of about Rs.19 Cr funded by term loans of Rs.14 Cr and rest through internal accruals. The current capex supports about 10-15 percent of revenue growth over the medium term. RWPL's cash accruals over the next two years through FY2021 are estimated to remain in the range of Rs.11.00-13.50 Cr, which are comfortable to service its repayment obligations about Rs.5-10 Cr during same period. Acuite believes that the company will maintain its financial risk profile 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 131-171 days during last 3 years through FY2020. The company maintains an inventory of about 28 to 35 days and gives credit period of 92-131 days to its customers during last 3 years through FY2020. Its creditor's days stood at 57-74 days during last 3 years through FY2020 FY2019. Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 80 percent over the past six months ended March 2021. 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. Acuite 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.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Liquidity Position: Adequate

RWPL's liquidity is adequate marked by comfortable cash accruals to its debt obligations. It reported cash accruals of Rs.12.14 Cr in FY2020, its accruals are expected in the range of Rs11.00-13.50 Cr in FY2021-23 against its repayment obligations of Rs.8-10 Cr during the same period. The operations are working capital intensive as reflected by its Gross Current Asset (GCA) days of 171 in FY 2020, leading to moderate utilisation of its limits at about 80 per cent during the last six months period ended March 2021. The current ratio of the company stands at 1.25 times and low cash and bank balances stood at Rs.0.23 Cr as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term. Despite incurred capex about Rs.20.00 Cr; its cash accruals is expected to adequate over the medium term.

Outlook: Stable

Acuite 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	FY20 (Actual)	FY19 (Actual)
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Operating Income	Rs. Cr.	162.95	146.13
PAT	Rs. Cr.	7.63	6.33
PAT Margin	(%)	4.68	4.33
Total Debt/Tangible Net Worth	Times	1.48	1.01
PBDIT/Interest	Times	4.04	4.20

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
18-Feb-2020	Cash Credit	Long Term	38.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	30.37	ACUITE BBB/Stable (Reaffirmed)
	FBN/FBP/FBD/PSFC/FBE	Short Term	3.50	ACUITE A3+ (Reaffirmed)
	Bank guarantee	Short Term	0.85	ACUITE A3+ (Reaffirmed)
	Proposed Term Loan	Long Term	0.28	ACUITE BBB/Stable (Reaffirmed)
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	42.00	ACUITE BBB/Stable (Reaffirmed)
Term Loans	22-02-2019	Not Available	28-02-2027	28.60	ACUITE BBB/Stable (Reaffirmed)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+ (Withdrawn)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.34	ACUITE A3+ (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.06	ACUITE BBB/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in

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