Press Release

Ranga Weaves India Private Limited

August 11, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.62	-	ACUITE A3+ | Reaffirmed
Bank Loan Ratings	99.38	ACUITE BBB | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	101.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its 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. 101.00 Cr on the bank facilities of Ranga Weaves India Private Limited (RWPL). The outlook is 'Stable'.

The ratings reaffirmed, reflects the better-than-expected performance of RWPL. RWPL reported substantial growth in the operating income by 84% in FY22 over FY21. The company's revenues grew at a compounded annual growth rate (CAGR) of 18 percent during the period between FY2018-FY2022 (Operating income of Rs. 264.79 Cr in FY2022) supported by capacity expansion. The rating takes into account its established track record in the textile processing industry 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.

About the Company

RWPL is an Erode (Tamil Nadu) based company incorporated in 2001; It 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 at Erode (Tamil Nadu). It has 192 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

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 t rack 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. 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 FY2022. 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.

Growing scale of operations yet volatile profitability
RWPL's operating income witnessed a CAGR of around 18% between FY2018 and FY2022. The total income achieved by RWLPL's in FY22 (Provisional) grew at a healthy pace of ~83% to Rs. 264.79 Cr from Rs. 144.50 Cr in FY21 due to increased demand, and increased customer base. The EBITDA and PAT margins, declined to 9.72% and 3.58 % respectively, in FY22 (provisional) against 15.88 % and 5.88% in FY21 due to volatility in the cost of production largely driven by the movements in prices of key raw material. Acuité believes that turnover growth due to scaling up of operations is likely to keep the profits and cash accruals moderate levels in FY2023.

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 moderate at around Rs. 61.15 Cr as on March 31, 2022 (Provisional) as compared to Rs. 51.68 Cr as on March 31, 2021; 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 1.21 times and 1.38 times as on March 31, 2022 (Provisional) as against 1.72 times and 1.90 times as on March 31, 2021. The comfortable profitability coupled with moderate gearing levels has resulted in comfortable debt protection metrics with interest coverage of 3.90 times and NCA/TD of 0.19 times for FY2022 as against 3.55 times and 0. 15 times, respectively, for FY2021.Acuité 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 98-171 days during last 3 years through FY2022. The company maintains an inventory of about 23-66 days and gives credit period of 55-131 days to its customers during last 3 years through FY2022. Its creditor's days stood at 1-74 days during last 3 years through FY2022. Moderate working capital management and moderate accruals lead to moderate utilisation of its working capital limits at about 57 percent over the past 12 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. Acuité believes that the working capital cycle will continue to look intensive over the medium term on account of business cycle of cotton industry.

Vulnerability of profitability to any adverse fluctuation in key raw material prices
The RWPL's margins are primarily affected by the raw material price fluctuation, which affects sales realisations. Any adverse movement in the price of key raw materials, such as cotton, could have an adverse impact on the RWPL's margins, as it may not be able to pass on the price hike to its customers owing to stiff competition. 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.

ESG Factors Relevant for Rating
Not Applicable

Rating Sensitivities

- 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

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.14.42 Cr in FY2022 (Provisional) against its repayment obligations of Rs.5.34 Cr during the same period. Its accruals are expected in the range of Rs13.00-18.00 Cr in FY2021-23 against its repayment obligations of Rs.8-11 Cr during the same period. The operations are moderate working capital intensive as reflected by its Gross Current Asset (GCA) days of 98 in FY 2022, leading to moderate utilisation of its limits at about 57 per cent during the last 12 months period ended June, 2022. The current ratio of the company stands at 2.11 times and cash and bank balances stood at Rs.5.10 Cr as on March 31, 2022 (Prov). Acuité believes that the liquidity of the company is likely to remain 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 Acuité Ratings & Research Limited www.acuite.in 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.

Other Factors affecting Rating
Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	264.79	144.50
PAT	Rs. Cr.	9.47	8.50
PAT Margin	(%)	3.58	5.88
Total Debt/Tangible Net Worth	Times	1.21	1.72
PBDIT/Interest	Times	3.90	3.55

Status of non-cooperation with previous CRA (if applicable)
None

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

https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 May 2021	Bank Guarantee	Short Term	1.34	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	28.60	ACUITE BBB | Stable (Reaffirmed)
	Proposed Term Loan	Long Term	0.72	ACUITE BBB | Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	11.90	ACUITE BBB | Stable (Reaffirmed)
	Term Loan	Long Term	16.44	ACUITE BBB | Stable (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE BBB | Stable (Reaffirmed)
14 May 2021	Term Loan	Long Term	28.60	ACUITE BBB | Stable (Reaffirmed)
	Proposed Term Loan	Long Term	1.06	ACUITE BBB | Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.34	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	42.00	ACUITE BBB | Stable (Reaffirmed)
	Bills Discounting	Short Term	3.50	ACUITE A3+ (Withdrawn)
18 Feb 2020	Bills Discounting	Short Term	3.50	ACUITE A3+ (Reaffirmed)
	Proposed Term Loan	Long Term	0.28	ACUITE BBB | Stable (Reaffirmed)
	Term Loan	Long Term	30.37	ACUITE BBB | Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.85	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	38.00	ACUITE BBB | Stable (Reaffirmed)
30 Jan 2019	Bank Guarantee	Short Term	2.26	ACUITE A3+ (Assigned)
	Term Loan	Long Term	14.84	ACUITE BBB | Stable (Assigned)
	Proposed Term Loan	Long Term	1.40	ACUITE BBB | Stable (Assigned)
	Bills Discounting	Short Term	3.50	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	28.00	ACUITE BBB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.62	ACUITE A3+ | Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	42.00	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	11.82	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	10.57	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	20.00	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	12.76	ACUITE BBB | Stable | Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	2.23	ACUITE BBB | Stable | Reaffirmed

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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.