Press Release

Royal Classic Mills Private Limited

April 01, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 270.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB+**' **(read as ACUITE triple B plus)** and short term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 270.00 crore bank facilities of Royal Classic Mills Private Limited (RCMPL). The outlook is **'Stable'**.

Incorporated in 1991, RCMPL is a Tamil Nadu-based company promoted by first generation entrepreneurs, Mr. R Gopalakrishnan (Chairman) and Mr. Sivaram (ED). The company is engaged in manufacturing of ready-made garments such as men's shirts and trousers, men's innerwear, boys' shirts, children's wear and fashion wear for both export market and domestic market. The company owns the flagship brand - Classic Polo since 2001 which has become one of the most popular and dynamic mid-premium brand in India.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RCMPL to arrive at this rating

Key Rating Drivers

Strengths

- **Long track of operations, established brand backed by integrated manufacturing operations:** RCMPL was incorporated in 1991. The company has an established track record of more than two decades with the manufacturing unit located at Tirupur, Tamil Nadu. 'Classic Polo' is one of the established apparel brands for men's clothing. Currently, the day to day operations of the company are managed by Mr. Gopalakrishnan (Chairman) and Mr. Sivaram (ED). RCMPL benefits from its integrated manufacturing facility from fibre to fashion that includes dyeing (yarn and fabric) knitting, garmenting and captive power facilities. Further in FY2018, the company had undertaken backward integration by setting up 26,000 spinning mills. Furthermore, for optimum utilization of capacity, RCMPL also undertakes job work for other readymade garment manufacturers. Thereby optimally consuming capacity for better absorption of fixed costs. Superior in-house capabilities have also helped RCMPL be more price-competitive in the intensely fragmented garment exports segment. Acuité believes that RCMPL will benefit owing to the vertically integrated state of the art infrastructure, brand image and extensive experience of the promoters in the textile industry.

- **Diversified revenue stream supported by robust distribution network** RCMPL's business risk profile is supported by over 60 percent of exports of the total sales to US and Europe. The company's operating income has grown at a compounded annual growth rate (CAGR) of 8 per cent over the last four years through FY 2018 to Rs. 678.04 crore on the back of increase in channel partners in the distribution network. The revenue profile in domestic market is well diversified, with significant presence in Multi brand outlets (MBO) (30.12% of gross domestic revenue in FY2018) plus large format retailers like Centrals, Globus, Pantaloons, Brand Factory, Reliance trend etc (32.48% of gross domestic revenue in FY2018), 138 Exclusive brand outlets (EBO) (18.90%), E-commerce platforms like Flipkart, Amazon among others along with its own website and factory outlet (18.50%). The company's robust distribution network has help to reinforce it's market position. RCMPL has a diversified product profile and caters to product lines such as men's innerwear, boys' shirts, children's wear, men's shirts and trousers, and fashion wear. Also, the company has established relationships

with key customers like GAP Inc, Gymboree, Baby Vision, LULU, NEXT and many more in the export segment. RCMPL's margins have been declining due intense competitive pressures in readymade garment export industry and slowing demand from key end user markets. Further, RCMPL has incurred high advertising and promotional expenditure to expand in domestic market and undertaken backward integration for cost-optimization. In FY2018, the operating margins (EBITDA) however stood at 12.66 per cent as against 15.38 per cent in FY2017. Acuité believes that the RCMPL will continue to benefit over the medium term from its revenue diversity, established customer relationships with better cost optimization plans

- **Above average financial risk profile**

RCMPL has above average financial risk profile marked by adequate net worth, moderate gearing and healthy debt protection metrics.

The net worth stood at Rs.150.75 crore as on March 31, 2018, which has witnessed sequential improvement from Rs.124.28 crore as on March 31, 2016. The accretion to net worth was mainly on account of steady operating profitability leading to higher accretion to reserves.

RCMPL has followed a moderate financial policy in the past as reflected by its peak gearing of1.91 times over the last three years through 2017-18. The gearing of the group stood at 1.90 times, as on March 31, 2018 due to on streaming capex. The same is expected to improve on account of no major capex plans. The total outside liabilities to tangible net worth ratio also stood at around 2.81 times as on March 31, 2018. RCMPL's total debt of Rs.286.32 crore as on March 31, 2018 (Rs.226.31 crore as on March 31, 2017) includes term loans (current and non-current portion) of Rs.66.09 crore, unsecured loans from relatives Rs.10.18 crore and working capital borrowings of Rs.210.05 crore. The reason for increase in debt exposure was due to setup of spinning facility. The total capex expenditure was ~Rs.65 crore which was funded by term loan of Rs.18.30 crore and remaining by internal accruals. Acuite expects RCMPL's gearing to remain in the range of 1.2-1.5 times over the medium.

The interest coverage ratio (ICR) of the company stood healthy at around 3.63 times as on 31 March, 2018 and the net cash accruals to total debt stood moderate at 0.22 times as on March 31, 2018. The debt service coverage ratio (DSCR) stood at 1.97 times for FY2018. The company's annual net cash accruals (PAT + Depreciation) were ~Rs.62.74 crore for FY2018 and expected to be ~Rs.68 crore as against which it had annual repayment obligations is of ~Rs.21.36 crore.

Acuité believes that RCMPL will maintain a moderate financial risk profile on the back of gradual growth in revenue, sustenance of its profitability margins and no major capex plans over the medium term.

Weaknesses

- **Working capital intensive operations**

RCMPL has working capital intensive operations mainly due to retail nature of business wherein the company has to stock inventory across all units for smooth functioning of the value chain. The Gross current assets (GCA) stood at 173 days as on 31 March 2018 as against 129 days in previous year. This is mainly due to increase in inventory holding of 85 days as on 31 March 2018 as against 58 days in previous year. Thus reflected by increase in raw material inventory by Rs. 28.87 crore in FY2018 as against Rs.11.50 in FY2017 crore. RCMPL has setup spinning unit during 9MFY2018 due to which the inventory holding period has increased significantly. The company has debtors of 76 days as on 31 March 2018 as against 68 days in previous year. Acuité expects the company to maintain its working capital on a moderate level over the medium term.

- **Competitive apparel retail sector:**

The Indian apparel industry is impacted due to various reasons namely pricing, client preference, changing trends etc. this exposes the company to a complex environment wherein the company has to constantly be at pace to meet customer demands along with tackling competition. The Entry of international brands, changes in preferences from non-branded to branded, the fast growing economy, large young consuming population in the country has made the market highly lucrative. However, RCMPL's diversified revenue stream along with along with brand image mitigates the risk.

Liquidity profiles

RCM has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.62.72 to Rs.89.61 crore during the last three years through 2017-18, while its maturing debt obligations were Rs.10.95 to 21.36 over the same period. The cash accruals of the company are estimated to remain around Rs. ~65 crore to ~75 crore during 2019-21 while its repayment obligation are estimated to be ~Rs.15 crore to ~21 crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 173 in FY 2018. The company has high reliance on working capital borrowings due to integrated manufacturing unit, the cash credit limit in the group remains utilized at above 90 percent. The current ratio of the group stand at 0.90 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no further major capex plans over the medium term.

Outlook: Stable

Acuité believes that RCMPL will maintain a stable business risk profile over the medium term backed by its experienced management, established presence of 'Classic Polo' brand and robust distribution network. The outlook may be revised to 'Positive' in case of substantial and sustained improvement in revenues while sustaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	678.04	691.30	615.85
EBITDA	Rs. Cr.	85.87	106.35	116.11
PAT	Rs. Cr.	18.56	6.98	41.61
EBITDA Margin	(%)	12.66	15.38	18.85
PAT Margin	(%)	2.74	1.01	6.76
ROCE	(%)	10.72	12.29	33.90
Total Debt/Tangible Net Worth	Times	1.90	1.66	1.91
PBDIT/Interest	Times	3.63	4.00	5.38
Total Debt/PBDIT	Times	3.26	2.52	2.16
Gross Current Assets (Days)	Days	173	129	119

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

CRISIL has been consistently following up with Royal Classic Mills Private Limited (RCMPL) for obtaining information through letters and emails dated May 22nd, 2018 and July 13th, 2018 among others, apart from telephonic communication. However, the issuer has remained non cooperative.

Any other information

None

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	10.00	ACUITE BBB+ / Stable
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A2
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.75	ACUITE A2
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A2
Term loans	Not Applicable	Not Applicable	Not Applicable	5.44	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	17.27	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.10	ACUITE BBB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	12.86	ACUITE BBB+ / Stable
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE A2

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