

Press Release

Royal Classic Mills Private Limited

September 11, 2020

Rating Reaffirmed and Withdrawn



Total Bank Facilities Rated*	Rs.193.00 Cr. (Reduced from Rs. 270.00 Cr.)
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2 (Reaffirmed)

* Refer Annexure for details

Erratum: *In the original PR dated 31st August 2020, there was an error in the details of instruments rated, which has been rectified in this version*

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 193.00 crore bank facilities of Royal Classic Mills Private Limited (RCMPL). The outlook is '**Stable**'.

Further, Acuite has withdrawn the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 79.33 crore bank facilities of Royal Classic Mills Private Limited (RCMPL).

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, boy's shirts, children's wear and fashion wear for both the 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 brands in India.

Analytical Approach

Acuite 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 is 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, garments 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. Acuite 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 55 percent of exports of the total sales to the US and Europe. The company's operating income has declined by 10 percent to Rs.549.67 crore for FY2020 (Provisional) from Rs.612.36 crore for FY2019 on account of discontinuation of business with two players which accounted around 23 percent of the total revenues albeit it has the back of robust distribution network. The revenue profile in the domestic market is well diversified, with a significant presence in Multi-brand outlets (MBO) (27.91% of gross domestic revenue in FY2020) plus large format retailers like Centrals, Globus, Pantaloons, Brand Factory, Reliance trend etc. (20.70% of gross domestic revenue in FY2020), 140 Exclusive brand outlets (EBO) (22.73%), E-commerce platforms like Flipkart, Amazon among others along with its own website and factory outlet (3%). The company's robust distribution network has help to reinforce its market position. RCMPL has a diversified product profile and caters to product lines such as men's innerwear, boy's shirts, children's wear, men's shirts and trousers, and fashion wear. Also, the company has established relationships with key customers like GAP Inc., Baby Vision, LULU, NEXT and many more in the export segment.

RCMPL's has reported EBITDA margins of 13.24 percent for FY2020 (Provisional) as against 12.16 percent for FY2019. The margins are expected to remain in the range of 12-13 percent in near to medium terms due to 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 the domestic market. The PAT margins stood at 2.06 percent for FY2020 (Provisional) as against 2.03 percent for FY2019. Acuite believes that the RCMPL will continue to benefit over the medium term from its revenue diversity, established customer relationships with better cost optimization plans.

- **Moderate financial risk profile**

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

The net worth stood at Rs.173.92 crore as on March 31, 2020 (provisional), which has witnessed sequential improvement from Rs.150.75 crore as on March 31, 2018. 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 of 1.90 times over the last three years through 2020. The gearing of the company improved to 1.11 times, as on March 31, 2020 (Provisional) as against 1.56 times in previous year majorly on account of reduction in debt exposure. The gearing is expected to improve further on account of no major capex plans. The total outside liabilities to tangible net worth ratio also stood at around 1.58 times as on March 31, 2020 (Provisional). RCMPL's total debt of Rs.193.39 crore as on March 31, 2020 (Rs.254.13 crore as on March 31, 2019) includes term loans (current and non-current portion) of Rs.28.72 crore, unsecured loans from relatives Rs.21.91 crore and working capital borrowings of Rs.142.76 crore.

The interest coverage ratio (ICR) of the company stood healthy at around 3.36 times as on 31 March, 2020 (Provisional) and the net cash accruals to total debt stood moderate at 0.26 times as on March 31, 2020. The debt service coverage ratio (DSCR) stood at 2.01 times for FY2020. The company's annual net cash accruals (PAT + Depreciation) were ~Rs.50.99 crore for FY2020 and expected to be in the same range as against which it had annual repayment obligations in range of ~Rs.5 to 7 crore.

Acuite believes that RCMPL will maintain a moderate financial risk profile on the back of a robust distribution network, 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 the smooth functioning of the value chain. The Gross current assets (GCA) stood at 175 days as on 31 March 2020 as against 170 days in the previous year. This is mainly due to inventory holding of 85 days and debtors of 86 days as on 31 March 2020. The company has a high reliance on working capital limits marked by average utilization above 85% during the last twelve months ending on July, 2020. Acuite 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 a 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, the large young consuming population in the country has made the market highly lucrative. However, RCMPL's diversified revenue stream along with brand image mitigates the risk.

Rating Sensitivities

- Declining operating income and margins due to lower demand
- Maintaining healthy financial risk profile

Material Covenants

None

Liquidity Position: Adequate

RCMPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.50 to Rs.62.74 crore during the last three years through 2020 (Provisional), while its maturing debt obligations were Rs.5.97 to 21.36 over the same period. The cash accruals of the company are estimated to remain around Rs. ~50 crore to ~55 crore during 2021-23 while its repayment obligation is estimated to be ~Rs.4.20 crore to ~7.22 crore. The company's operations are moderately working capital intensive as marked by Gross Current Asset (GCA) days of 175 in FY 2020. The company has a high reliance on working capital borrowings due to integrated manufacturing unit, the cash credit limit in the group remains utilized at above 85 percent. The current ratio of the company stands at 1.23 times as on March 31, 2020. 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

Acuite 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	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	549.67	612.36
PAT	Rs. Cr.	11.33	12.42
PAT Margin	(%)	2.06	2.03
Total Debt/Tangible Net Worth	Times	1.11	1.56
PBDIT/Interest	Times	3.36	3.02

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Apr-2019	Cash Credit	Long Term	10.00	ACUITE BBB+/ Stable (Assigned)
	PC/PCFC	Short Term	30.00	ACUITE A2 (Assigned)
	PC/PCFC	Short Term	65.00	ACUITE A2 (Assigned)
	Stand by Line of Credit	Short Term	8.00	ACUITE A2 (Assigned)
	PC/PCFC	Short Term	50.75	ACUITE A2 (Assigned)
	PC/PCFC	Short Term	38.00	ACUITE A2 (Assigned)
	Term Loans	Long Term	5.44	ACUITE BBB+/ Stable (Assigned)
	Term Loans	Long Term	17.27	ACUITE BBB+/ Stable (Assigned)
	Term Loans	Long Term	3.00	ACUITE BBB+/ Stable (Assigned)
	Term Loans	Long Term	3.10	ACUITE BBB+/ Stable (Assigned)
	Term Loans	Long Term	12.86	ACUITE BBB+/ Stable (Assigned)
	Working capital demand loan (WCDL)	Long Term	25.00	ACUITE BBB+/ Stable (Assigned)
	Letter of Credit	Short Term	1.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	0.58	ACUITE A2 (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	10.00	ACUITE BBB+ / Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE A2 (Reaffirmed)
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A2 (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	50.75	ACUITE A2 (Withdrawn)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	38.00	ACUITE A2 (Reaffirmed)
Term loans	April-2016	Not Applicable	Sept-2021	2.60	ACUITE BBB+ / Stable (Reaffirmed)
Term loans	April-2017	Not Applicable	Mar-2024	11.00	ACUITE BBB+ / Stable (Reaffirmed)

Term loans	Oct-2012	Not Applicable	Sept-2019	3.00	ACUITE BBB+ (Withdrawn)
Term loans	Jan-2012	Not Applicable	Dec-2019	0.01	ACUITE BBB+ / Stable (Reaffirmed)
Term loans	April-2018	Not Applicable	Sept-2025	11.00	ACUITE BBB+ / Stable (Reaffirmed)
Working capital demand loan	Feb-2019	Not Applicable	June-2019	25.00	ACUITE BBB+ (Withdrawn)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ / Stable (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE A2 (Withdrawn)
Proposed	Not Applicable	Not Applicable	Not Applicable	11.39	ACUITE BBB+ / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice-President Tel: 022-49294041 aditya.gupta@acuite.in Disha Parmar Analyst - Rating Operations Tel: 022-49294054 disha.parmar@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.