Press Release

Ratan Textiles Private Limited

D-U-N-S® Number: 87-365-1651

June 25, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.75 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' **(read as ACUITE B plus)** on the Rs. 8.75 crore bank facilities of Ratan Textiles Private Limited. The outlook is **'Stable'**.

Jaipur-based, Ratan Textiles Private Limited (RTPL) was incorporated in 1985 by Jain family. RTPL manufactures and exports made-ups (70%) include home furnishing products, and readymade garments for ladies and kids (30%). RTPL exports to USA, Japan, UK, Australia and many others. The company has two manufacturing units with installed capacity of 800000 metres per year.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RTPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced Management**

  RTPL was incorporated in 1985 by Mr. Naresh Kumar Jain who possesses over four decades of experience in the textile industry. Subsequently, Mr. Sunit Kumar Jain and Mr. Anant Jain also joined the company, and both possess experience of more than two decades. The extensive experience of promoters has helped RTPL to establish customer base across the geographies of USA, Japan, South Africa, Australia among others with vintage of operations of about a decade. RTPL derives over 90 per cent of its revenues from overseas markets, and rest from domestic market; the unit operates at about 80 per cent capacity levels. Acuité believes that experienced management and established relations with customers and suppliers are expected to keep the business risk profile stable over the medium term.

- **Moderate financial risk profile**

  The financial risk profile is marked by comfortable gearing, total outside liabilities to tangible networth (TOL/TNW) and debt protection metrics though partly constrained by modest networth. The gearing and TOL/TNW are comfortable at 0.93 and 1.14 times as on March 31, 2019 (Provisional) against 1.10 and 1.70 times as on March 31, 2018. The net worth is modest at Rs.8.40 crore as on March 31, 2019 (Provisional) as against Rs.7.59 crore as on March 31, 2018, an increase owing to accretion to reserves. Of the total debt of Rs.7.83 crore, short term debt consists of Rs.7.03 crore, long term debt of Rs.0.65 crore and unsecured loans from promoters of Rs.0.15 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 2.87 times and 0.12 times respectively in FY2019 (Provisional). RTPL reported modest cash accruals of Rs.0.92 crores (provisional) in FY2019. Acuité believes that with modest accruals at about a crore, and no significant capex plans, the financial risk profile is expected to be at similar levels over the medium term.

Weaknesses

- **Working capital intensive operation**

  RTPL has working capital intensive nature of operations marked by Gross Current Assets (GCA) days of 225 in FY2019 (Provisional) as compared to 227 days in FY2018. This is majorly due to the inventory holding period of 160 days in FY2019 (Provisional). The company maintains inventory of raw materials, work in progress and finished products of high demand which is required in this industry at all times to bag the business opportunity. The collection period stood at 35 days in FY2019 (Provisional). RTPL enjoys credit period of 65 days from its suppliers which moderates the working capital requirements partly; with high GCA throughout resulted in high bank limit utilisation at about 90 per cent over six months through March 31, 2019. Acuité believes that with modest networth and accruals and high GCA, RTPL's operations continue to be working capital intensive over the medium term.

- **Modest scale of operations, intense competition and volatile profitability**
  In spite of same line of business for more than three decades, the scale of operations of RTPL is modest at around Rs.19 crores over the past three years through FY2019. Its revenues in FY2017 was Rs.18.9 crores, though increased to Rs.21.9 crores in FY2018 however declined marginally to Rs.19.1 crores. Further, the profitability margins are so volatile and oscillated in between 7.0-10.8 per cent over the same period partly attributed to volatile raw material prices, pricing flexibility and competition. Acuité believes that though the revenue profile is expected to improve to around Rs.22-26 crores over the medium term, however remains modest in the fragmented industry.

Liquidity:

Liquidity profile of RTPL is moderate reflected by moderate net cash accruals and high bank limit utilisation. RTPL's cash accruals are historically at around Rs.0.9 crore with minimal repayment obligations. It's cash accruals are expected in the range of Rs.0.9 – 1.2 crore over the medium term against repayment obligations of Rs.0.15 crore leaving marginal flexibility. High working capital intensive operations with GCA of about 225 days lead to high utilisation of its working capital limits at about 90 per cent for the last six months through April 2019. The current ratio is moderate at 1.34 times in FY2019 (Provisional). Acuité believes that the cushion in its accruals is expected to be absorbed into its incremental working capital operations and liquidity continues to be moderate.

Outlook: Stable

Acuité believes that RTPL will maintain a 'Stable' business risk profile over the medium term based on its experienced management. The outlook may be revised to 'Positive' in case the company registers a substantial increase in the scale of operations while maintaining profit margins. Conversely the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or sharp decline in its profitability leading to deterioration in the company's financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	19.14	21.95	18.92
EBITDA	Rs. Cr.	1.73	1.56	2.04
PAT	Rs. Cr.	0.57	0.46	0.61
EBITDA Margin	(%)	9.03	7.13	10.80
PAT Margin	(%)	3.00	2.10	3.21
ROCE	(%)	8.87	8.11	11.44
Total Debt/Tangible Net Worth	Times	0.93	1.10	1.03
PBDIT/Interest	Times	2.87	2.68	3.32
Total Debt/PBDIT	Times	4.39	4.82	3.39
Gross Current Assets (Days)	Days	225	227	238

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

CRISIL, vide its press release dated April 30, 2019 had denoted the rating of RATAN TEXTILES PRIVATE LIMITED as 'CRISIL BB-/Stable (Issuer Not Cooperating; Rating Migrated)' on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

Applicable Criteria

• Default Recognition - https://www.acuite.in/criteria-default.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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	1.00	ACUITE B+ / Stable (Assigned)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE B+/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+ / Stable (Assigned)

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About Acuité Ratings & Research:
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