

Press Release

R S Fibers

March 11, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.85 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 18.85 crore bank facilities of R S Fibers (RSF). The outlook is '**Stable**'.

R S FIBERS (RSF) based of Barwani, Madhya Pradesh was incorporated in 2014. The company is part of 'Riddhi Siddhi Group' having long standing established track record of over three decades in the Cotton Industry. The firm is engaged in cotton ginning & pressing activity. The firm is also carrying on trading of cotton bales. It is also engaged in trading and manufacturing of cotton yarn on jobwork basis as per the market demand. The manufacturing unit is located at Barwani, Madhya Pradesh and Shahpur, Karnataka. The unit has capacity of 3.26 lakhs quintal.

Riddhi siddhi group has established presence in textile industry and is known for cotton trade in the state of Madhya Pradesh and Maharashtra. The group is managed by Agarwal family; Mr. Gopal Agrawal, Mr. Shyam Agrawal and Mr. Sanjay Agrawal being the key promoters. The group is engaged in Cotton Ginning, Pressing, Trading, Processing of Raw Cotton & Yarn Carded & allied activities. The group is having presence in Maharashtra: Shevgaon, Sillod, and Aurangabad, Shahpur (Karnataka), Thirumalgiri (Telangana), Dindigul, Sathyamangalam (Tamil Nadu), Gobichettipalayam (Tamil Nadu) & Kalavad (Gujarat) and expanding to other cotton growing areas.

Analytical Approach

Acuite has considered the consolidated business and financial risk profile of Riddhi Siddhi Cotex Private Limited, Siddhi Fibers, Ramanuj Cotton Corporation, Rishi Fibers Pvt Ltd, and RS Fibers together referred to as the Riddhi-Siddhi group. The consolidation is on the basis of common promoters, same line of business, and significant operational financial linkages within the group. Extent of Consolidation: Full

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The Riddhi Siddhi group has establish presence in cotton industry of over three decades and its longstanding presence, established relations with customers, understanding of local market dynamics, and direct purchase from farmers will continue to support the current business. The key promoters extensive industry experience and establish network has helped the group is developing market presence and ensured recurring flow of orders backed by steady flow of raw materials from the suppliers. The group undertakes cotton ginning, pressing, trading, and processing of raw cotton, yarn along with allied activities. On the back of the stable and repeat orders by the key customers, the revenues have improved to Rs.614.06 crores in FY2019 as against Rs.596.95 crores in FY2018. Acuite believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

- **Location advantage and geographically well diversified clientele**

The group's manufacturing units are located in Maharashtra, Telangana, Tamil Nadu, Karnataka and Gujarat. These areas are cotton growing belts and thus provide easy access to both raw materials and suppliers. The presence of unit in the textile processing hub provides competitive advantage in terms of proximity to raw material, trained work force and marketing. Further, group has a pan India presence and has an established marketing set-up in prominent city across India.

- **Moderate financial risk profile**

The financial risk profile of the group stood moderate marked by tangible net worth of Rs. 66.30 crore (including unsecured loans from promoters of Rs. 23.53 crore) as on 31 March, 2019 as against Rs. 52.08 crore (including unsecured loans from promoters of Rs. 18.68 crore) as on 31 March, 2018. The gearing (debt-equity) stood moderate at 1.55 times as on 31 March, 2019 as against 2.13 times as on 31 March, 2018. The interest coverage ratio stood moderate at 1.68 times for FY2019 as against 1.60 times in FY2018. The TOL/TNW stood at 1.82 times in FY2019 as compared to 2.72 times in FY2018. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.07 times for FY2019. The DSCR stood moderate at 1.45 times for FY2019. Acuite believes that the financial risk profile will remain moderate in the medium term mainly due to moderate net worth base and steady accruals.

Weaknesses

- **Moderate working capital cycle**

The moderate working capital cycle of the company is marked by moderate Gross Current Asset (GCA) of 101 days in FY2019 and 108 days in FY2018. The GCA days are marked by moderate receivable days of 44 in FY2019 and 49 days in FY2018. The inventory holding days also stood at 43 days in FY2019 as against 45 days in FY2018. The same has increased reliance on utilisation of working capital limits. The average working capital utilisation limit stood at 93.00 percent for last six months ending February 2020. Acuite believes with increasing scale of operation, ability of management to manage its working capital efficiently would remain a key rating sensitivity factor.

- **Highly competitive textile industry**

The textile industry in India is highly fragmented and competitive marked by presence of large number of organised and unorganised players. The group is exposed to intense competition from presence of large number of players like Riddhi Siddhi group and well established players in the market. The shifts in consumption patterns can also have an adverse impact on the operations of the group. The Indian textile industry has also seen a muted growth in past few years and may have impact on the growth of the existing players such as Riddhi Siddhi group.

Liquidity Position: Adequate

The liquidity profile of the group stood adequate marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals stood at Rs. 6.54 crore as compared to its total repayment obligations of Rs. 0.91 crore in FY2019. The cash accruals of the company are estimated to improve further during FY2020-22 due to improving scale of operations and margins. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 101 in FY2019. This has led to higher reliance on working capital borrowings, the cash credit limit of the company remains utilised at ~ 93.00 percent during the last six months period ended February 2020. The current ratio of the company stood at 1.46 times in FY2019. The management follows moderate leverage policy on availing debt from banks for meeting its capital expenditure. Acuite expects the liquidity of the group to improve over the medium term on account of increase in generation of net cash accrual from scaling up of operations.

Rating Sensitivities

- Improving scale of operation
- Sustaining existing margins and financial risk profile
- Working capital management

Outlook: Stable

Acuite believes that the group will maintain 'Stable' outlook over the medium term owing to its experienced management and established track record of operations in textile industry. The outlook may be revised to 'Positive' in case the group registers significant growth in revenue and profitability while maintaining its existing working capital cycle. The outlook may be revised to 'Negative' in case of significant decline in revenue, margins or stretch in working capital cycle leading to deterioration in overall financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	614.06	596.95
PAT	Rs. Cr.	5.16	3.49
PAT Margin	(%)	0.84	0.59
Total Debt/Tangible Net Worth	Times	1.55	2.13
PBDIT/Interest	Times	1.68	1.60

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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	18.00	ACUITE BB+/ Stable
Term loans	April 2015	Not Applicable	30-Apr-2021	0.36	ACUITE BB+/ Stable
Term loans	April 2015	Not Applicable	30-Apr-2021	0.49	ACUITE BB+/ Stable

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