

Press Release

R S Fibers

February 08, 2021

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 18.85 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Upgraded from BB+/Stable and Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) to Rs. 18.59 crore bank facilities of R S Fibers (RSF). Also, Acuite has assigned the long term rating to Rs. 0.26 crore of bank facility. The outlook is '**Stable**'.

The rating upgrade is on account of consistent improvement in operating and financial risk profile of the group while sustaining existing working capital cycle. Also, rating factors in group ability to sustain its business and financial risk profile in cyclical business environment which is visible through consistent improvement over the years. The rating upgrade is also supported by an experienced management and establish long track record of operations of Riddhi Siddhi group in the textile Industry.

About Company

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 Sillod, Maharashtra and Tamil Nadu. The unit has capacity of 3.84 lakhs quintal. The company is managed by Agarwal family; Mr. Gopal Agrawal, Mr. Shyam Agrawal and Mr. Sanjay Agrawal being the key promoters.

About Group

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 Group owns 4 Ginning and pressing units and 7 Spinning Units (Leased basis) at different states in Maharashtra, Telangana, Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. It is 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. 687.79 crores in FY2020 as against Rs. 614.06 crores in FY2019. The group has booked revenue of Rs. 2,740.01 crores till 9MFY2021, on account of higher trading activities undertaken by the group in current year. 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. This areas are cotton growing belts and thus provides 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 group, has a moderate financial risk profile marked by net worth of Rs. 66.56 crore as on March 31, 2020 as against Rs. 64.68 crores as on March 31, 2019. The net worth includes quasi capital of Rs. 21.91 crore as on March 31, 2020 as on March 31, 2019 in from of unsecured loans. The gearing of the group stands at 1.47 times as on March 31, 2020 as against 1.61 times as on March 31, 2019, due to lower utilisation at end of the month. The debt of Rs. 97.80 crore, mainly consists of short term debt of Rs. 94.37 crores and long term debt of Rs. 3.43 crore as on March 31, 2020. The debt protection metrics are marked by Interest Coverage Ratio, which stood at 1.77 times as on March 31, 2020 as against 1.68 times as on March 31, 2019. Debt Service Coverage Ratio (DSCR) of the company stands at 1.51 times for FY2020 as against 1.45 times as on FY2019. Further, NCA/TD stood at 0.09 times for FY2020 as against 0.07 times for FY2019.

Weaknesses

• **Uneven Margins and risk of capital withdrawal**

Riddhi siddhi group operates in textile industry which is cyclical and exposed to demand – supply risk, along with susceptibility of margins to raw material prices. The same is visible in historical performance of the group. The operating margins stood declined at 3.12 percent in FY2020 as against 3.64 percent in FY2019 and 2.98 percent in FY2018. However, PAT margins stood improved at 1.10 percent in FY2020 as against 0.84 percent in FY2019 due to higher other income through sale of assets in FY2020. Further, group consist of firms which are exposed to capital withdrawal risk which is visible in previous year for execution of their long term plans of include consolidation of business by merging other firms to establish RSCL as flagship company.

• **Highly fragmented industry and exposed to agro climatic risk**

The group operates in a highly fragmented cotton industry characterised by the presence of a large number of unorganised players, thereby impacting the group's bargaining power. Cotton prices are regulated by the government through MSP (Minimum Support Price) mechanism. However, the selling price of the output depends on the prevailing demand-supply situation restricting the bargaining power with customers, thereby impacting margins. Acuite believes that the group will be able to mitigate this risk to some extent on account of its promoters' experience and well established position in the market. Further, cotton being a seasonal crop and the production of the same being highly dependent upon monsoon, the group is always exposed to agro climatic risk.

Liquidity Position: Adequate

Liquidity of the group is adequate marked by sufficient net cash accruals of Rs.4.90 -8.95 crore against repayment obligation of Rs.0.45-0.95crore through last three year ending FY2020. The cash accruals of the group are expected to remain on the same level with low repayment obligations of Rs.0.50-1.50 over the near term. The group's operations are moderately working capital intensive in nature marked by gross current asset (GCA) days of 109 days as on March 31, 2020 as against 101 days as on March 31, 2019. Working capital borrowings in the group remained utilised at around 90-95 percent during the peak season and average Cash Credit limits utilization 85.00 percent for last six months ending December 2020. The group maintains unencumbered cash and bank balances of Rs.0.57 crore as on March 31, 2020. The current ratio of the group stood at 1.32 times as on March 31, 2020. 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

- Improvement in scale of operation
- Sustaining existing margins and financial risk profile
- Efficiently Working capital management and liquidity profile

Outlook: Stable

Acuite believes that Riddhi Siddhi Group will maintain a 'Stable' outlook over the medium term on the back of extensive promoter experience and well established presence of the group in the cotton industry. The outlook may be revised to 'Positive' in case the group is able to generate healthy revenues while improving its profitability and maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in its working capital cycle, thereby impacting its liquidity or further deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	687.79	614.06
PAT	Rs. Cr.	7.55	5.16
PAT Margin	(%)	1.10	0.84
Total Debt/Tangible Net Worth	Times	1.47	1.61
PBDIT/Interest	Times	1.77	1.68

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

Not Applicable

Any Material Covenants

Not Any

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>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.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. Crore)	Ratings/Outlook
11-Mar-20	Cash Credit	Long Term	18.85	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	0.36	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	0.49	ACUITE BB+/Stable (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	18.00	ACUITE BBB-/ Stable (Reaffirmed)

Term loans	April-2015	Not Applicable	30-Apr-2021	0.25	ACUITE BBB-/Stable (Reaffirmed)
Term loans	April-2015	Not Applicable	30-Apr-2021	0.34	ACUITE BBB-/Stable (Reaffirmed)
WCTL	June - 2020	Not Applicable	May -2024	0.26	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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