## Press Release

**Rishi Fibers Private Limited**

**May 04, 2022**

**Rating Assigned and Upgraded**

| **Product** | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Bank Loan Ratings** | 22.00 | ACUITE BBB \| Stable \| Upgraded | - |
| **Bank Loan Ratings** | 8.00 | ACUITE BBB \| Stable \| Assigned | - |
| **Total Outstanding Quantum (Rs. Cr)** | 30.00 | - | - |
| **Total Withdrawn Quantum (Rs. Cr)** | 0.00 | - | - |

** Refer Annexure for details*

## Rating Rationale

Acuité has upgraded its long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.22.00 Cr bank facilities of Rishi Fibers Private Limited (RFPL). The outlook is **'Stable'**.

Acuité has also assigned its long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** on the Rs.8.00 Cr bank facilities of RFPL. The outlook is **'Stable'**.

**Rationale for rating upgrade:**
The upgrade in the rating reflects the significant improvement in the operating performance in FY2021, expected improvement in the operations going forward, efficient working capital management, moderate financial risk profile marked by comfortable debt protection metrics and strong liquidity position with low dependence on working capital limits. However, the rating is constrained by risk of capital withdrawal owing to partnership firms, thin profitability margins owing to inherent nature of trading industry along with susceptibility of margins to raw material price volatility and intense competition.

## About Company

Rishi Fibers Private Limited (RFPL) based of Aurangabad was incorporated in 2011. The company is part of 'Riddhi Siddhi Group' having long standing established track record of over three decades in the Cotton Industry. The company is processing and trading of raw cotton, cotton seeds, cotton bales & yarn. The manufacturing unit is located at Jamnagar (Gujarat) and Aurangabad (Maharashtra). The unit has capacity of 4.30 lakhs quintal for ginning and spinning unit. The company is managed by Agarwal family; Mr. Gopal Agrawal, Mr. Shyam Agrawal and Mr. Sanjay Agrawal being the key promoters.

## About the 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

### Extent of Consolidation

• Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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.

## 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 & bulk trading activities undertaken by the group, the revenues have improved to Rs. 3820.29 crore in FY2021 as against Rs.688.12 crore in FY2020. The group has achieved a turnover of around Rs.5577.33 crore for FY2022. The outlook on revenues going forward is also positive due to increase in demand, stable & repeat orders by the key customers & higher trading activities done by the group. The absolute EBITDA has also significantly improved & stood at Rs.60.08 crore in FY2021 as against Rs.21.76 crore in FY2020 due to bulk trading.

Acuité 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**

Financial risk profile of the group is moderate marked by improving gearing (debt to equity ratio), comfortable net worth and comfortable debt protection metrics. The gearing stood at 0.95 times as on March 31, 2021 against 1.57 times as on March 31, 2020 on account of plough back of profits to reserves. Tangible net worth of the group stood comfortable at Rs.108.65 crore (includes quasi equity of Rs.22.76 crore) as on March 31, 2021 against Rs.64.04 crore (includes quasi equity of Rs.19.39 crore) as on March 31, 2020. There was some withdrawal of quasi equity in FY2020 which was used in some other business but which was infused again in FY2021. TOL/TNW stood at 7.82 times as on March 31, 2021 against 2.46 times as on March 31,

2020. However, if adjustment for Advances from Customers are net off from advances to suppliers, then TOL/TNW stood at 0.99 times as on March 31, 2021. Of the total debt of Rs.103.58 crore as on March 31, 2021, long-term debt stood at Rs.14.71 crore, short-term debt stood at Rs.86.62 crore and CPLTD stood at Rs.2.25 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood comfortable at 4.11 times and 0.36 times respectively in FY2021; while DSCR stood at 3.11 times in FY2021.

Acuité believes that the financial risk profile of the group is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

**>Working capital efficient nature of operations**

The group's working capital operations are efficient marked by moderate Gross Current Asset days (GCA) of 90 days in FY2021 against 109 days in FY2020. This is majorly on account of efficient inventory and receivable management. The inventory days stood at 7 days in FY2021 against 33 days in FY2020. The group maintains an inventory holding policy of 3 weeks (maximum of 21-25 days). The debtors' days stood at 10 days in FY2021 against 71 days in FY2020 which is corresponding to normal terms with the customers. The credit period given to customers is around 5-30 days. The creditors' days stood at 5 days in FY2021 against 33 days in FY2020 which is also corresponding to normal terms with the suppliers. The group enjoys a credit period of 30-60 days. The group also procures raw cotton from farmers for which they pay immediate cash. The current ratio of the group also remained moderate at 1.12 times as on March 31, 2021. However, working capital limits remains utilized at 30-60 percent for last 6 months ended March, 2022.

Acuité believes that the ability of the group to maintain efficient working capital management will remain a key rating sensitivity.

## 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 1.57 percent in FY2021 as against 3.16 percent in FY2020 and 3.95 percent in FY2019. PAT margins also stood declined at 0.93 percent in FY2021 as against 1.11 percent in FY2020 due to increase in certain fixed costs. Further, group consist of firms which are exposed to capital withdrawal risk which is a key rating sensitivity.

**>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.

Acuité 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.

## Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

## Material Covenants

None

## Liquidity Position: Strong

The group has a strong liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The group generated cash accruals in the range of Rs.8.49 crore – Rs.36.86 crore during the last three years through FY2019-21 against moderate

repayment obligations of Rs.2.25 crore during the same period. It is expected to generate cash accruals in the range of Rs.45.07 crore – Rs.82.67 crore over the medium term, against moderate repayment obligations in the range of Rs.3.81 crore – Rs.5.76 crore. Unencumbered cash and bank balances stood at Rs.3.68 crore as on March 31, 2021 with a current ratio of 1.12 times in the same period. Liquid investments stood at Rs.0.89 crore as on March 31, 2021. The group's working capital operations are efficient marked by moderate Gross Current Asset days (GCA) of 90 days in FY2021 against 109 days in FY2020. This is majorly on account of efficient inventory and receivable management. The working capital limits remained utilized at ~30-60 percent for last trailing 6 months ended March, 2022.

Acuité believes that liquidity profile is expected to remain strong on account of adequate cash accruals against moderate repayment obligations.

## Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the group demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the group registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

## Key Financials

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 3820.29 | 688.12 |
| PAT | Rs. Cr. | 35.50 | 7.61 |
| PAT Margin | (%) | 0.93 | 1.11 |
| Total Debt/Tangible Net Worth | Times | 0.95 | 1.57 |
| PBDIT/Interest | Times | 4.11 | 1.77 |

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

Not Applicable

## Any Other Information

None

## Applicable Criteria

- Application Of 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
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

## Note on Complexity Levels of the Rated Instrument

https://www.acuite.in/view-rating-criteria-55.htm

## Rating History

| Date | Name of Instruments/Facilities | Term | Amount (Rs. Cr) | Rating/Outlook |
|---|---|---|---|---|
| 08 Feb 2021 | Cash Credit | Long Term | 22.00 | ACUITE BBB- \| Stable (Upgraded from ACUITE BB+ \| Stable) |
| 11 Mar 2020 | Cash Credit | Long Term | 22.00 | ACUITE BB+ \| Stable (Assigned) |

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 22.00 | ACUITE BBB \| Stable \| Upgraded ( from ACUITE BBB- ) |
| Bank of Baroda | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | 8.00 | ACUITE BBB \| Stable \| Assigned |

***Note:*** ***Cash Credit includes sublimit of EPC/FBP/FBD/FBN to the extent of Rs.5.00 crore and ILC/FLC to the extent of Rs.5.00 crore.***

## Contacts

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## About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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