



Press Release
Rishi Fibers Private Limited
January 24, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BB Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **Acuite BB (read as Acuite double B)** from **Acuite BB+ (Read as Acuite Double B Plus)** on the Rs.30.00 Cr bank facilities of Rishi Fibers Private Limited (RFPL). The outlook is 'Stable'.

Rationale for rating downgrade

The rating downgrade takes into consideration the significant correction recorded in the RFPL's operating income in FY2023, from the exceptional highs of FY2022 and FY2021, wherein the company utilized the opportunity to trade in cotton stocks released by the CCI. The operating income stood at Rs.194.85 Cr in FY2023 against Rs.2029.71 Cr in FY2022 and Rs.1493.73 Cr in FY2021 and Rs.249.62 Cr in FY2020.

FY2023 was marked by the slow arrival of cotton in the market along with low price levels, resulting in lower volumes and lower price realizations for the company.

The operating profit declined both in margin and in absolute terms in FY2023. The operating profit margin stood at 1.06 percent in FY2023 against 1.84 percent in FY2022. The absolute operating profit stood at Rs.2.07 Cr in FY2023 against Rs.37.39 Cr in the previous fiscal.

The financial risk profile continues to remain moderate, with a healthy net worth, low gearing levels, and average debt protection metrics.

The rating is further constrained due to its working capital-intensive nature of operations, high reliance on working capital limits, presence in a highly fragmented industry, and exposure to agro-climatic risks.

Going ahead, RFPL's ability to improve its revenues and profitability while avoiding any significant stretch in the working capital cycle and conserving its healthy capital structure will remain key rating monitorable.

About the Company

Rishi Fibers Private Limited (RFPL) based of Aurangabad was incorporated in 2011. The company is into 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has changed its analytical approach from consolidation of Riddhi Siddhi Cotex Private

Limited, Siddhi Fibers, Ramanuj Cotton Corporation, Rishi Fibers Pvt Ltd, and RS Fibers to standalone basis for Rishi Fibers Private Limited in view of adequate information not available

for the other group companies for consolidation.

Key Rating Drivers

Strengths

Established track record of operations and experienced management.

The company has established presence in cotton industry of over a decade 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 promoter's extensive industry experience and establish network has helped the company in developing market presence and ensuring recurring flow of orders backed by steady flow of raw materials from the suppliers. The company undertakes cotton ginning, pressing, trading, and processing of raw cotton, yarn along with allied activities.

Acuite believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

Moderate financial risk profile

Financial risk profile of the company is moderate marked by healthy net worth, low gearing levels and average debt protection metrics. The gearing stood at 0.47 times as on March 31, 2023, against 0.41 times as on March 31, 2022. Tangible net worth stood at Rs.69.36 crore (includes quasi equity of Rs.9.15 crore) as on March 31, 2023, against Rs.66.31 crore (includes quasi equity of Rs.8.53 crore) as on March 31, 2022. TOL/TNW improved to 0.76 times as on March 31, 2023, against 1.41 times as on March 31, 2022. The total debt stood at Rs.32.30 crore as on March 31, 2023, comprising of long-term debt of Rs.0.65 crore, short-term debt stood of Rs.29.34 crore and USL of Rs.2.31 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood average at 1.54 times and 0.09 times respectively in FY2023, while DSCR stood at 1.72 times in FY2023.

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

Location advantage and geographically well diversified clientele

The company's manufacturing units are located in Maharashtra and Gujarat. These 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, the company has a pan India presence and has an established marketing set-up in prominent city across India.

Weaknesses

Intensive nature of working capital operations

The company's working capital operations are intensive in nature marked by deteriorated Gross Current Asset days (GCA) of 199 days in FY2023 against 26 days in FY2022. The GCA days are led by high debtor days which stood at 100 days in FY2023 against 7 days in FY2022. The increase in debtor days is on account of high debtors outstanding during the year end as the arrival of cotton continued beyond the regular months. The inventory days stood at 27 days in FY2023 against 7 days in FY2022. The company maintains an average inventory holding policy of 3 weeks. The creditor days stood at 25 days in FY2023 against 6 days in FY2022. The company enjoys a credit period of 30-60 days from its suppliers. The company also procures raw cotton from farmers for which they pay immediate cash. The current ratio of the company stood healthy at 2.13 times as on March 31, 2023. The reliance on working capital limits remained high at 89% utilisation level for the last 12 months ending October 2023.

Acuite believes that the ability of the company to improve its working capital management will remain a key rating sensitivity.

Highly fragmented industry and exposure to agro climatic risk

The company operates in a highly fragmented cotton industry characterised by the presence of a large number of unorganised players, thereby impacting the company'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 company 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 company is always exposed to agro climatic risk.

Rating Sensitivities

Growth in revenues and improvement in profitability margins.

Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Liquidity Position Adequate

The company has an adequate liquidity position as reflected by sufficient net cash accruals generation against negligible repayment obligations. The company generated cash accruals of Rs.2.91 crore in FY2023 against nominal repayment obligation of Rs.0.13 crore during the same period. It is expected to generate cash accruals in the range of Rs.1.34 crore – Rs.2.41 crore over the medium term, against nominal repayment obligations in the range of Rs.0.14 crore – Rs.0.15 crore. Unencumbered cash and bank balances stood at Rs.0.02 crore as on March 31, 2023. The current ratio of the company stood healthy at 2.13 times as on March 31, 2023. The company's working capital operations are intensive in nature marked by high Gross Current Asset days (GCA) of 199 days in FY2023. The reliance on working capital limits remained high at 89% utilisation level for the last 12 months ending October 2023.

Acuite believes that liquidity profile is expected to remain adequate on account of expected sufficient cash accruals generation against nominal repayment obligations.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term owing to its experienced management, locational advantages, and geographically well diversified clients. The outlook may be revised to 'Positive' if the company records a higher-than-expected growth in its revenues while improving its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	194.85	2029.71
PAT	Rs. Cr.	2.44	32.54
PAT Margin	(%)	1.25	1.60
Total Debt/Tangible Net Worth	Times	0.47	0.41
PBDIT/Interest	Times	1.54	6.87

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2023	Cash Credit	Long Term	8.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	22.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
04 May 2022	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	22.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
08 Feb 2021	Cash Credit	Long Term	22.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BB Stable Downgraded
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB Stable Downgraded

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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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