

Press Release

Rosy Hosiery Mills

August 20, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.10.00crore
Long Term Rating	ACUITE BB/ Outlook:Stable(Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.10.00 crore bank facilities of Rosy Hosiery Mills (RHM). The outlook is '**Stable**'.

Ludhiana based, Rosy Hosiery Mills (RHM) was established in 1958 as a proprietorship firm and later converted to a partnership firm in 1990. The current partners of the firm are Mr. Kewal Kalra and Mr. Rahul Kalra. The firm is engaged in the manufacturing of fabrics, home furnishings, ladies' garments etc.

The manufacturing facilities of the firm are located in Ludhiana with a total production capacity of 24,500 pieces per day and the average capacity utilization is ~70 percent.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

RHM was established in 1958 as a proprietorship firm and later converted to a partnership firm in 1990. The partners of the firm are Mr. Kewal Kalra and Mr. Rahul Kalra, having experience of about three decades and a decade, respectively in the aforementioned line of business. The experience of the partners has helped the firm to develop healthy relationships with customers and suppliers. The key customers of the firm include names like Reliance Retail Limited, Avenue Supermart Limited amongst others with no major concentration in revenues.

Acuité believes that the firm will continue to benefit through partner's industry experience and healthy relationship with its customers and suppliers.

- **Moderate working capital operations**

The firm's working capital management is moderate, marked by its Gross Current Asset (GCA) days of around 158 days in FY2019 as against 107 days in FY2018. The firm has maintained an inventory holding period of 66 days as on 31 March, 2019 as against 51 days as on 31 March, 2018. RHM has extended a credit period of around 70 days in FY2019 to its customers as against 29 days in FY2018.

Acuité expects the working capital management to remain moderate over the medium term on account of its moderate inventory holding period.

Weaknesses

- **Average Financial Risk Profile**

RHM's financial risk profile is average, marked by modest net worth, high gearing and average debt protection metrics. The firm's net worth is modest, estimated at around Rs.4.26crore as on March 31, 2019. The firm has followed an aggressive financial policy in the past, the same is reflected through its gearing levels of 2.34 times as on March 31, 2018. The gearing increased marginally to 2.40 times as on March 31, 2019. The gearing, however, is expected to remain at around 2.19 times (Est) as on March 31, 2020 on back of absence of any major debt-funded capex plan. Total outside liabilities to total net worth (TOL/TNW) stood at 4.30 times as on 31 March, 2019 as against 3.05 times as on 31 March, 2018.

The firm, on the other hand, generated cash accruals of Rs.0.26 crore in FY2019 as against Rs.0.63 crore in FY2018. The profitability levels, coupled with debt levels have led to average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 was moderate at 0.03 times and 1.22 times, respectively.

Acuité believes the financial risk profile is likely to remain average over the medium term, on account of high gearing and average debt protection metrics.

- **Highly competitive and fragmented nature of the industry**

The firm operates in a highly competitive and fragmented industry, characterised by a large number of players mainly on account of low entry barriers. This can have an impact on the profitability margins of the firm.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in the working capital cycle leading to an increase in reliance on working capital borrowings

Material Covenants

None

Liquidity position: Adequate

RHM has adequate liquidity, marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.26 crore for FY2019 with debt repayment obligations of Rs. 0.04 crore for the same period. The cash accruals of RHM are estimated to remain in the range of around Rs.0.55 crore to Rs.0.67 crore during 2020-22 against debt repayment obligations in the estimated range of around Rs.0.03 crore per year in the same period. However, the average bank limit utilization over the past six months ended June 2020 remained high at ~98.93 percent. The company maintains unencumbered cash and bank balances of Rs.2.58 crore as on 31 March 2019. The current ratio stood at 1.20 times as on 31 March 2019.

Acuité believes that the liquidity of the company is likely to remain adequate on account of adequate cash accrual against debt repayments over the medium term.

Outlook: Stable

Acuité believes that RHM will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	50.15	56.20
PAT	Rs. Cr.	0.20	0.56
PAT Margin	(%)	0.39	0.99
Total Debt/Tangible Net Worth	Times	2.40	2.34
PBDIT/Interest	Times	1.22	1.49

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

None

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	10.00	ACUITE BB/Stable (Assigned)

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About Acuité Ratings & Research:

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