

## Press Release

**Rajaguru Spinning Mills Private Limited**

September 04, 2020



### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 260.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB / Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A2 (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) and the short-term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 260.00 Cr bank facilities of Rajaguru Spinning Mills Private Limited (RSMPL). The outlook is '**Stable**'.

Established in 1993 as a private limited company, Rajaguru Spinning Mills Private Limited (RSMPL) is engaged in manufacturing of 100% Viscose Knitting and weaving yarn with counts ranging from 10s to 40s. RSMPL has three spinning units in Erode, Tamil-Nadu with a total spinning capacity of 1,26,696 spindles and 480 air jet spinning Units. RSMPL also has windmills with a total capacity of 26 mega-watts (MW) in Tamil-Nadu. RSMPL is a family-owned business, promoted and managed by Mr.S Balu (Managing Director).

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of RSMPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

- Promoter's extensive industry experience and one of the largest Viscose spinner in Erode, Tamil-Nadu**

RSMPL is a family-owned business with the existence of more than two decades in the viscose spinning industry. The company was established with a spinning capacity of 6,000 spindles in 1993 by Mr.S Balu, Managing Director, having industry experience of 40 years. The day-to-day operations are managed by promoter's son – Mr.B Sivakumar and Mr. B Vinod Kumar with experience of 18 years and 15 years in the spinning industry, respectively. Mr.B Sivakumar has completed Diploma and Mr. B Vinod Kumar is an MBA. With a long track record of operations in Pallipalayam, Erode, RSMPL is one of the largest 100 per cent Viscose yarn manufacturer with a total spinning capacity of 1,27,176 spindles along with 26 MW windmill for captive consumption. The largest players in Pallipalayam are 'Pallava Textiles Private Limited and Sri Cheran Synthetics India Private Limited' (part of the Pallava Group) with combined spinning capacity of 3,00,000 spindles and 2800 Vortex drums. With promoter's extensive industry experience and established existence, RSMPL has been able to establish a long-standing relationship with its suppliers and customers. Acuité believes that the promoter's extensive industry experience and established relationships with its customers and suppliers will aid RSMPL's business risk profile over the medium term.

- Large scale of Operations backed by continuous capacity expansion over the years**

RSMPL's scale of operations is large with total operating income (TOI) at its peak in FY2019 at Rs.550.8 Cr. Total operating income's y-o-y growth had been more than 25 percent until FY2018; post which growth slowed down to 9.5 percent in FY2019 and de-grew by 15.7 percent in FY2020 (Provisional). Despite the decline in FY2020, the scale of operations remained large. The larger and growing scale of operations is

attributed to continuous expansion in its spinning and windmill capacity. RSMPL undertakes capex after every two-three years to meet the upcoming demand of its vintage customers. The recent capex was undertaken in FY2018 wherein 20,000 spindles along with a 5 MW of windmill were added at a project cost of approx. Rs.80 Cr. The capex was capitalized in Q1FY2019 and commercial production had started from June, 2019. RSMPL is presently in FY2021, once more incurring a capex of Rs.113 Cr to add 30,000 spindles and 15MW solar power plant for a captive purpose; funded by term loan of Rs.88.7 Cr and remaining through internal accruals. Acuité believes that RSMPL's scale of operations is likely to remain large over the medium term too backed by continuous capacity expansion.

- **Low Project risk associated with on-going capacity expansion**

RSMPL is incurring a total capex of Rs.113 Cr to add 30,000 spindles and 15MW solar power plant for a captive purpose; funded by term loan of Rs.88.7 Cr and remaining through internal accruals. The total project cost for the solar power plant is Rs.40 Cr; funded through term loan of Rs.30 Cr and balance through internal accruals. The total project cost for the spindles is Rs.73 Cr; funded through term loan of Rs.58.68 Cr and balance through internal accruals and promoter's support. The funding of the aforesaid debt is already tied up; leading to lower funding risk. The capex started from January, 2020 for Solar plant and June, 2020 for spinning machines. The spinning capex is expected to be completed in a shorter span due to sufficient availability of land and building in its existing unit for the incremental spinning machines. Both the plants are expected to start production from Q2FY2022. This leads to lower implementation risk. RSMPL has been continuously expanding over the years, which takes its spinning capacity from the initial 6000 spindles to present 1,27,716 spindles; this manifests continuous demand. To further meet the increasing demand, the incremental capacity would be sufficient and is expected to be 100 per cent utilised in the near term. This depicts a low demand risk too. Acuité believes that low project cost will aid the business risk profile over the medium term.

- **Efficient working capital Cycle**

RSMPL's working capital cycle is efficiently managed with gross current assets (GCA) days in the range of 68-115 days over the last 3 years ending March, 2020. The efficient GCA underpins the low inventory levels in the range of 22-39 days and moderate debtor days of 34-56 days over the last 3 years ending March, 2020. The debtor and inventory days were comparatively higher in FY2020 due to lower billing on account of the outbreak of COVID-19 in the month of March, 2020. The GCA days also include other current assets of Rs.30 Cr as on March, 2020 (Provisional) which leads to slightly elevated levels of GCA days. The creditors are low as the procurement is done on cash and carry basis or through an inventory financing scheme. Despite lower support from creditors, the bank lines have been moderately utilized at an average of 58 percent over the last 12 months ending July, 2020. Acuité believes that RSMPL's operations will remain efficiently managed over the medium term.

- **Comfortable financial profile**

RSMPL's financial risk profile is comfortable, marked by comfortable capital structure and debt protection metrics. RSMPL had a gearing of 1.6 times as on March, 2020 (provisional) against 1.9 times as on previous year. The gearing remained between 1.5-1.9 times over the last 3 years ending March, 2020 due to continuous debt-funded capex incurred. Networth was comfortable at Rs.104.3 Cr as on March, 2020 (Provisional) against Rs.98.3 Cr in the previous year. Despite lower net cash accruals (NCAs) in FY2020 resulting in a modest increase in networth, the gearing improved in FY2020; this was on account of term loan repayments and lower reliance on working capital. Gearing is expected to be high in FY2021 due to further availment of a term loan of Rs.88.7 Cr; though the reliance on working capital limits is expected to remain moderate. RSMPL's debt protection metrics are above-average marked by interest coverage and Net cash accruals to total debt (NCATD) of 3.4 times and 0.25 times as on March, 2020 (provisional) against 5.6 times and 0.29 times as on previous year end. The debt protection metrics were lower in FY2020 due to lower operating profit and net cash accruals. The same is expected to dip marginally in FY2021 due to further dip in operating profit and NCAs. Despite the fall, the metrics are expected to remain comfortable. Nevertheless, the metrics are expected to improve FY2022 onwards backed by improving top-line and NCAs. Acuité believes that with the on-going debt-funded capital expenditure plan; the debt protection metrics and capital structure will show marginal deterioration in FY2021; eventually improve FY2022 onwards.

## Weaknesses

- **Decline in operating income**

Operating income dipped by 15.7 percent in FY2020 (Provisional) to Rs.464.0 Cr from Rs.550.8 Cr in FY2019 due to fall in trading income of Viscose staple fibre (VSF) by 62 percent (contributing 9% to revenue in FY2020 vs 20% in FY2019). The huge fall was a repercussion of an unusual high trading income registered in FY2019 of Rs.109.4 Cr. Whereas, the fall in viscose yarn revenue (contributing 91% to total revenue) was limited to 4 percent in FY2020 majorly due to lower realisations. Despite an increase in yarn production by 9.6 percent in FY2020, the yarn realisations fell by 12.4 percent. The fall in yarn realizations was a result of two factors – continuous fall in VSF prices (its major raw material) and competition from low-priced vortex yarn dumped by China. The average price of VSF procured by RSMPL had declined from Rs.167/kg in FY2018 to Rs.145/kg in FY2019 and further by 17 percent to Rs.120/kg in FY2020. Subsequently, RSMPL's average selling price for the majorly sold 30s count yarn also mirrored declining trend; wherein the prices declined from Rs.210/kg in FY2018 fell further by 6.1 percent in FY2019 and 12.4 percent (approx. Rs.173/kg) FY2020. Also, low-priced Vortex yarn dumped by China in India since H2FY2019 was available at Rs.4-5/kg lower than the ring spun yarn. The excess production in China supported by cheap labour, incentivized logistics was the reason for the lower landed price. Nevertheless, the demand for the ring spun yarn still remains comparatively stronger domestically due to its superior quality. While the domestic VSF and fabric segments are protected by anti-dumping and import duty, the viscose staple yarn (VSY) prices are not. Amid falling operating income, RSMPL's EBITDA margins have remained intact between 12.3 to 13.5 percent over the last 3 years ending FY2020. This is due to better inventory management and cost optimization measures. Acuité believes that any imposition of anti-dumping duty in the near term and stable VSF prices will boost RSMPL's operating income and profit over the medium term.

- **Moderate Impact of Covid-19 and continuous fall in yarn realisations indicating further operating income and profitability dip in FY2021**

RSMPL remained non-operational for the month of April and May, 2020, which is expected to result in lower production by approx.126 tonnes for 2 months. RSMPL produces approx. 63 tonnes per month subject to 100 percent capacity utilization (1 spindle yields 0.6 kg of yarn for 30s count). RSMPL's existing plants are already at 100 percent capacity utilization. RSMPL has reported year-to-date (YTD) revenue of Rs.64 Cr till July from Yarn sales. Trading income from VSF is nil as most of the trading occurs in Q4 of every fiscal for the surplus quantity. The plant operated at 40 percent in June, 2020 and 70 percent in July, 2020 and 100 percent from August, 2020. Further, until the VSF prices are stable and anti-dumping duty is imposed on Vortex yarn, the yarn realisations are expected to be lower; thereby leading to lower operating income and operating profit in FY2021. RSMPL procured VSF at Rs.120/kg in Q2FY2021; while yarn realisations have further fallen to Rs.165-170/kg. Acuité believes that with capacity utilization at 100 percent at existing plants, the growth in operating income will be limited in FY2021; albeit will show immense growth thereon with commercialization of incremental capacity.

- **Susceptibility to fluctuation in raw material prices and high supplier concentration risk**

RSMPL's profitable margins are susceptible to fluctuations in the prices of major raw materials such as viscose staple fibre in keeping with volatility in the prices of wood pulp (cellulose). The prices of viscose yarn are influenced by movement in prices of its substitutes, i.e. cotton and polyester staple fibres. The company sources the entire part of viscose staple fibre from Grasim Industries, which is the major supplier of viscose in India, leading to limited pricing flexibility. Acuité believes that despite RSMPL's established raw material linkages and possessing Grasim Industries Limited as a vintage supplier, RSMPL is exposed to high supplier concentration risk.

## Liquidity Position: Adequate

RSMPL's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its debt obligations and moderate current ratio. RSMPL has generated net cash accruals of Rs.40.9 Cr in FY2020 against debt obligation of Rs.24.8 Cr. The company is expected to generate adequate NCAs in the range of Rs.35.0-55.0 Cr against CPLTD of Rs.20.0-40.0 Cr over the medium term. The average fund-based working capital utilization stood between 58 percent for the past 12 months ended July, 2020. The company has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2020. The current ratio stood at 1.5 times as on March, 2020 (Provisional). Acuité believes that RSMPL's liquidity will remain adequate over the medium term despite

the debt-funded capital expenditure underway.

#### Rating Sensitivities

- Timely completion of the on-going capital expenditure leading to substantial improvement in scale of operations and operating profit while maintaining operating margins over the medium term
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile and liquidity.

#### Outlook: Stable

Acuité believes that RSMPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of timely execution of capital expenditure leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case RSMPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

#### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	464.00	550.76
PAT	Rs. Cr.	6.06	22.63
PAT Margin	(%)	1.31	4.11
Total Debt/Tangible Net Worth	Times	1.57	1.85
PBDIT/Interest	Times	3.47	5.61

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

RSMPL's rating was downgraded with Issuer not cooperating status with India Ratings, through its rating rationale dated July 10, 2020. The reason provided by India Ratings is non-furnishing of information by RSMPL.

#### Any other information

None

#### Any Material Covenants

None

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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	Maturity Date Amount (Rs. Crore)	Recommended Rating
Cash Credit	Not Applicable	9.80%	Not Applicable	30.00*	ACUITE BBB/ Stable (Assigned)
Term Loans I	Not Available	9.80%	2022	1.23	ACUITE BBB/ Stable (Assigned)
Term Loans II	Not Available	9.80%	2025	22.8	ACUITE BBB/ Stable (Assigned)
Term Loans III	Not Available	9.80%	2026	29.98	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	9.25%	Not Applicable	11.00	ACUITE BBB/ Stable (Assigned)
Term Loans I	Not Available	9.25%	2024	21.26	ACUITE BBB/ Stable (Assigned)
Term Loans II	Not Available	9.25%	2026	15.80	ACUITE BBB/ Stable (Assigned)
Term Loans III	Not Available	9.25%	2025	8.46	ACUITE BBB/ Stable (Assigned)
Term Loans IV	Not Available	9.25%	2025	6.70	ACUITE BBB/ Stable (Assigned)
Term Loans V	December, 2019	9.25%	2026	30.00#	ACUITE BBB/ Stable (Assigned)
Cash Credit	Not Applicable	9.10%	Not Applicable	10.00^	ACUITE BBB/ Stable (Assigned)
Term Loans I	May, 2020	9.10%	2027	58.68@	ACUITE BBB / Stable (Assigned)
Term Loans II	Not Available	9.10%	2025	5.90	ACUITE BBB/ Stable (Assigned)
Term Loans III	Not Available	9.10%	2025	5.90	ACUITE BBB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.29	ACUITE BBB / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2 (Assigned)

\*WCDL is sub-limit of CC upto Rs.30 Cr and LC upto Rs.1 Cr

#Capex LC is sub-limit of TL V of Rs.30 Cr upto Rs.25 Cr

^WCDL is sub-limit of CC upto Rs. 10 Cr

@ Capex LC is sub-limit of TL I of Rs.58.68 Cr

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Neha Agarwal Senior Analyst - Rating Operations Tel: 040-4004 2327 <a href="mailto:neha.agarwal@acuite.in">neha.agarwal@acuite.in</a>	

### About Acuité Ratings & Research:

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