

Press Release

Rathinam Textile

March 16, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.19.00 Cr.
Long Term Rating	ACUITE BB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.19.00 crore bank facilities of Rathinam Textile (RT). The outlook is '**Stable**'.

About the company

Tamil Nadu based, Rathinam textile (RT) was established as a partnership concern in the year 2017 by Mr. Dinesh Raj and Ms. Manothini. The firm has started its commercial operations from the year 2018. RT is engaged in manufacturing of cotton and viscose fabric. The firm has 14 handloom machines in FY2019 and expanded to 24 machines in FY2020 and further to 28 machines in FY2021. The present capacity utilization stands at around 85 percent.

The rating assigned on the bank facilities of RT is driven by its gradual improvement in revenues backed by continuous capex and moderate profitability margins. The above strengths are partially offset by its working capital intensive operations, average financial risk profile and susceptibility to fluctuation in raw material prices.

Analytical Approach

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

Key Rating Drivers

Strengths

- Improving revenues backed by continuous capex and moderate order book position and moderate profitability margins**

The firm's revenues have been gradually improving over the review period FY2019 and FY2020, backed by continuous capacity expansion. RT started commercial operations from the financial year FY2019. In the first year of operations, the firm has generated revenues of Rs.10.30 Cr and in FY2020 it significantly improved to Rs.20.91 Cr despite the outbreak of covid-19 in Q4FY2021. Further, the firm has achieved revenue of Rs.35 Cr from April 2020 to February 2021. The firm started with 14 handloom machines in FY2019 and expanded to 24 machines in FY2020 and 28 machines in FY2021. The firm is at present operating at around 85 percent capacity. As on February 2021, the firm has an unexecuted order book position of Rs.4.00 Cr, which is expected to be completed by April 2021. The profitability margins of the firm stood at 13.09 percent in FY2020 as against 22.75 percent in FY2019. The firm procures the yarn well in advance to meet the requirements from domestic market and also imports the yarn at cheaper prices. Acuité believes that backed by continuous expansion, decent order book and improving demand from H2 of FY2021 from the ready-made garments industry, the demand for fabric is expected to improve over the medium term.

Weaknesses

- Moderate financial risk profile**

The financial risk profile of the firm has remained moderate with modest networth, moderate capital structure and debt protection metrics. The networth of the firm stood at Rs.3.57 Cr as on March 31, 2020 as against Rs.3.35 Cr as on March 31, 2019. Gearing (Debt-to-Equity) ratio stood at 3.36 times as on March 31, 2020 as against 2.74 times as on March 31, 2019. Gearing deteriorated on account of increase in total debt levels owing to capex and increase in short term debt with respect to increase in revenue and marginal increase in networth levels. Debt protection metrics; Interest Coverage Ratio and Debt Service Coverage

Ratio stood at 2.44 times and 1.68 times as on March 31, 2020 as against 3.43 times as on March 31, 2019, respectively. This is on account of increase in interest expense owing to increase in total debt levels. TOL/TNW stood at 4.04 times and 2.39 times as on March 31, 2020 and 2019 respectively. Acuité believes that financial risk profile of the firm is expected to remain moderate owing to moderate accretion to reserves in the medium term.

• Moderate working capital management

The working capital management of the firm has remained moderate with Gross Current Assets (GCA) days of 173 days and 308 days as on March 31, 2020 and 2019, respectively. The improved GCA days are on account of improved collection period from customers. The debtor days stood at 71 days as on March 31, 2020 as against 105 days as on March 31, 2019. The inventory days stood at 80 days and 84 days as on March 31, 2020 and 2019, respectively. The working capital limits of the firm have remained utilized at 82 percent for the last six months ended December 2020. Acuité believes that RT's working capital cycle will remain moderate over the medium term.

• Highly fragmented industry and profitability susceptibility to fluctuation in raw material prices

The firm operates in a highly competitive and fragmented textile industry characterized by a large number of unorganized players along with the fluctuation in raw material prices affecting the profitability margins of the firm. Acuité believes that the highly fragmented and competitive industry along with variation in raw material prices will remain a key concern for the firm going ahead.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

The liquidity position of the firm has remained adequate with adequate net cash accruals to service debt obligations. The firm has generated cash accruals of Rs.1.64 Cr in FY2020 as against the repayment obligation of Rs.0.67 Cr. The cash accruals of the firm expected to be Rs.3-4 Cr for FY2021-2023 as against the repayment of Rs.1.90-2.70 Cr for the same period. Current ratio of the firm stood at 1.38 times as on March 31, 2020. Cash and Bank balance stood at Rs.0.85 Cr as on March 31, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals.

Outlook: Stable

Acuité believes that RT 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 higher-than-expected revenues and profitability with improvement in working capital management and liquidity. Conversely, the outlook may be revised to 'Negative' in case RT registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or any major debt-funded capex plan leads to deterioration in its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	20.91	10.30
PAT	Rs. Cr.	0.38	0.80
PAT Margin	(%)	1.82	7.76
Total Debt/Tangible Net Worth	Times	3.36	2.74
PBDIT/Interest	Times	2.44	3.43

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

None

Any Material Covenants

None

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>
- 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>

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	4.00	ACUITE BB-/ Stable (Assigned)
Term Loan	April 2020	7.30	April 2022	0.98	ACUITE BB-/ Stable (Assigned)
Term Loan	June 2020	7.50	June 2024	1.74	ACUITE BB-/ Stable (Assigned)
Term Loan	April 2018	10.85	Nov 2027	2.68	ACUITE BB-/ Stable (Assigned)
Term Loan	Mar 2019	10.85	Dec 2027	2.02	ACUITE BB-/ Stable (Assigned)
Term Loan	Sept 2020	11.30	Sept 2029	0.79	ACUITE BB-/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	6.79	ACUITE BB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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