

Press Release

The Rajaratna Mills Private Limited

November 02, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 66.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 66.00 Cr bank facilities of The Rajaratna Mills Private Limited (RMPL). The outlook is '**Stable**'.

The assigned ratings consider RMPL's experienced presence in the cotton spinning industry, steady performance expected over the near term supported by the recovery in demand in the spinning industry and strong relationships with its suppliers and customers. The ratings albeit is constrained by the modest size of operations, intense competition in the industry and vulnerability of its margins to fluctuating raw material and yarn prices.

About the Company

RMPL was incorporated in 1979 with 12,000 spindles and progressively expanded to its current capacity of 39,856 spindles and 7,040 rotors. The company is closely held by the promoters and its family members, who have close to over six decades of experience in the industry. RMPL is engaged in the production of cotton yarn in the medium and finer counts range of 6's-30's 60's and 90's. It has two manufacturing facilities in Palani (Tamilnadu). RMPL had installed windmill capacity of 1.50 MW for captive use. At present, the company's operations are actively managed by Mr J. Thulasidharan, Managing Director, and his daughter, Ms. Nikenantha Thulasidharan and son, Mr Sailendra Thulasidharan

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of RMPL to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive experience of promoters and long operational track record of operations

RMPL has an established track record of spanning over 65 years in spinning industry. Mr J.Thulasidharan, the present MD, has more than three decades of experience in the spinning industry and his son Ms. Nikenantha Thulasidharan and his son Mr Sailendra Thulasidharan are the directors supported in day to day operations along with other professional team. The promoters have established long relationships with various stakeholders across the value chain, aiding in repeat orders from key customers. Acuite believes that RMPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients will improve its business risk profile over the medium term.

• Moderate financial risk profile

RMPL's financial risk profile is moderate, marked by moderate capital structure and moderate debt protection metrics. Networth was moderate at Rs.25.09 Cr as on March 31, 2021 against Rs.20.73 Cr in the previous year. RMPL gearing and total outside liabilities to total net worth (TOL/TNW) stood at 1.55 times and 2.02 times as on March 31, 2021 (provisional) vis-à-vis 2.01 times and 2.55 times as on March 31, 2020. RMPL's debt protection metrics are moderate marked by interest coverage and Net cash accruals to total debt (NCATD) of 3.37 times and 0.22 times as on March 31, 2021 against 2.49 times and 0.12 times as on previous year end. Acuite believes that in absence of any major debt-funded capital expenditure; the financial risk profile is expected to remain at similar levels over the medium term.

• **Efficient working Capital Management**

RMPL's working capital cycle is efficiently managed with gross current assets (GCA) days in the range of 128-167 days over the last 3 years ending March 31, 2021. The efficient GCA underpins the moderate inventory levels in the range of 80-104 days and low debtor days of 18-36 days over the last 3 years ending March 31, 2021. The creditors are low at 11-18 days over the last 3 years ending March 31, 2021; the bank lines have been moderately utilized at an average of 33 percent over the last 12 months ending March 2021. Acuite believes that RMPL's operations will remain efficiently managed over the medium term.

Weaknesses

• **Stagnant revenues and volatile profitability over the past three years**

The company's total operating income has remained stagnant in the range of Rs. 113-120 Cr over the past three years. The operating income stood at Rs.113.13 Cr in FY2021 (provisional) as against Rs.113.49 Cr in FY2020 and Rs.120.82 Cr in FY2019. The RMPL's operating margins improved to 11 per cent in FY2021 (provisional) as against 7.05 per cent in FY2020 as against 9.17 percent in FY2019. Acuite believes that improvement of revenues and profitability are the key rating sensitivity factors in improving its business and financial risk profile over the medium term.

• **Susceptibility of operating margins to volatility in raw material prices**

RMPL's key raw material, cotton, constitutes about 80-85 percent of its raw material cost, is a highly seasonal commodity and good quality cotton is available only during the peak cotton season i.e. October to March. Operating margins of cotton spinners are susceptible to changes in cotton prices, which are highly volatile and commoditised product. Any abrupt change in cotton prices due to supply-demand scenario, carry-over stocks in the overseas market, and government regulations of changes in minimum support price (MSP) can lead to distortion in market prices and affect the profitability of players across the cotton value chain, including spinners. Further, spinning industry is highly fragmented and competitive with the presence of a large number of organised and unorganised players.

Liquidity Position: Adequate

RMPL's liquidity is adequate, marked by efficient bank limit utilization, adequate net cash accruals against its debt obligations. RMPL has generated net cash accruals (NCA) of Rs.4.90 Cr- Rs.8.35 Cr during last 3 years ending with FY2021 (Prov.) against debt obligation of Rs.2-4 Cr during the same period. The company is expected to generate adequate NCAs in the range of Rs.7-9 Cr against CPLTD of Rs.5-6 Cr over the medium term. The average fund-based working capital utilization efficient at 33 percent for the past 12 months ended Sept 2021. The Company has maintained unencumbered cash and bank balances Rs.1.33 Cr and current ratio of 1.62 times as on March, 2021. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material covenants

None

Outlook: Stable

Acuite believes that RMPL will continue to benefit over the medium term due to its experienced management and established relation with its suppliers and customers. The outlook may be revised to 'Positive', in case of continued traction in revenues and sustainable profitability given the limited capacity available with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case RMPL registers lower-than-expected 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	113.13	113.49

PAT	Rs. Cr.	4.36	1.01
PAT Margin	(%)	3.85	0.89
Total Debt/Tangible Net Worth	Time0073	1.55	2.01
PBDIT/Interest	Times	3.37	2.49

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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB-/Stable (Assigned)
Indian Bank	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE BBB-/Stable (Assigned)
Indian Bank	Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Indian Bank	Term Loan	Mar-18	10.25%	Mar-24	5.40	ACUITE BBB-/Stable (Assigned)
Indian Bank	Term Loan	Mar-21	8.90%	Jul-28	7.90	ACUITE BBB-/Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BBB-/Stable (Assigned)
Indian Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.35	ACUITE A3 (Assigned)
Indian Bank	Letter Of Credit	Not Applicable	Not Applicable	Not Applicable	4.95	ACUITE A3 (Assigned)

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