

Press Release

The Ruby Mills Limited

February 21, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	244.42	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	15.58	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	260.00	-	-

Rating Rationale

Acuite has assigned its long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on Rs.260.00 crore bank facilities of The Ruby Mills Limited (TRML). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned reflects established market position of the company in the textile industry especially across the state of Maharashtra. The ratings draws comfort from the sustained growth in scale of operations as reflected through healthy compounded annual growth rate (CAGR) of 2.39% over the last three years through FY2022, coupled with its healthy financial risk profile and adequate liquidity position. These strengths are partially offset by the susceptibility of operating margins to the volatility in the raw material prices and risk of timely receipt of dues form developers coupled with the inherent cyclicality in the real estate industry and risk of timely renewal and renegotiation of the lease agreements entered into by TRML.

About the Company

Incorporated in 1917, TRML is a Maharashtra based textile manufacturing company having PAN India presence engaged in manufacturing of various types of cotton and synthetic fabrics and development, renting and sale of commercial space. The spinning and weaving unit of the company is located at Dhamni and fabric processing unit located at Kharsundi in Maharashtra.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of TRML to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations and experienced management

Incorporated in 1917, The Ruby Mills Limited (TRML) is a Maharashtra based composite textile manufacturing company engaged in manufacturing of various types of cotton and synthetic fabrics. The company is also engaged in development, sale and renting of commercial space. The company is promoted by Shah family and presently run and managed by the 3rd Generation Promoter Director Mr Hiren M Shah, Chairman; Mr Bharat M Shah, Managing Director; and Mr. Viraj M Shah, Managing Director and 4th Generation Promoter Director Mr. Purav H Shah, Executive Director, CEO and CFO; and Mr. Rishabh V Shah, President who has wide experience in textile and real estate industry. The operations of the company are managed by qualified and well experienced senior management team who are ably supported by a strong line of mid-level managers. The experienced of promoters and long track record of operations in the textile industry has helped the company to maintain healthy and long-term relationships with both its customers and suppliers. Acuité believes that TRML will continue to benefit from their established presence in the industry backed by promoters' vintage and established track record of operations.

Stable operating performance

TRML has two major revenue streams namely textile manufacturing and real estate. The total operating income of the company has grown at a CAGR of 2.39 percent for 3 years ending FY22. Total operating income of the company stood at Rs.199.08 crore in FY22 as against Rs.124.85 crore in FY21 and Rs. 185.65 crore in FY20. Such growth comes at the back of increased demand and higher price realisation of the products post easing of restrictions after the Covid-19 induced lockdown. TRML has a commercial workspace at Dadar, Mumbai from where the company derives lease rental income and income from development rights. Operating profitability of the company has remained rangebound between 25-30 percent (includes the profitability of the real estate segment; particularly from rental business). Operating profit margin stood at 27.54 percent in FY22 as against 31.95 percent in FY21 and 25.64 percent in FY20. TRML witnessed marginal decline in operating margins on account of increased raw material prices and higher fixed costs. Operating margin from the textile and garment business segment ranges between 10-11 percent. PAT margin of the company stood at 15.59 percent in FY22 as against 20.71 percent in FY21 and 14.92 percent in FY20. Acuite believes that the profitability of the company is likely to remain in the same range in the near to medium term.

Healthy financial risk profile

Financial risk profile of the company is healthy marked by a healthy networth, low gearing and comfortable debt protection metrics. Tangible networth of the company stood at Rs. 524.69 crore as on 31st March 2022 as against Rs. 498.14 crore as on 31st March 2021 and Rs.471.96 crore as on 31st March 2020. Strengthening of networth is on account of increased accretion of profits to reserves. Gearing of the company improved from its peak gearing levels at 0.83 times as on 31st March 2020 and stood at 0.53 times as on 31st March 2022 and 0.79 times as on 31st March 2021. TOL/TNW of the company has shown a consistent improvement and stood at 0.83 times as on 31st March 2022 as against 1.10 times as on 31st March 2021 and 1.18 times as on 31st March 2020. Debt protection metrics of the company remained comfortable with DSCR at 2.29 times in FY22 and Interest coverage ratio at 5.76 times in FY21. Acuite expects TRML's financial risk profile to remain moderate over the medium term on account of likely improvement in operating performance and absence of any major debt funded capex plan.

Weaknesses

Susceptibility of timely receipt of dues from developers coupled with the inherent cyclicity of the real estate industry

The company had entered into a development agreement with Mindset Estates Pvt Ltd to develop a commercial space i.e 'The Ruby tower' at Dadar, Mumbai. The Ruby tower is a 40-floor skyscraper (basement + podium + 3 upper levels of parking and 36 upper floors). The land is owned by TRML and the company had taken bank loans on behalf of the developer

to fund the development of commercial space thereby leading to huge outstanding dues receivable from developers of Rs. 635.33 crore as on 31st March 2022. Further, occupancy certificate for the said property has been received in a phased manner in 2011 and 2022. The company is yet to receive occupancy certificate for the top floor in the tower. The company has however been able to recover ~Rs. 116 crore in H1FY23 and the outstanding from developers stood at Rs. 519.30 crore as on September 30, 2022. Acuite observes that the receipt of the dues from the developer has remained much slower in the past and the recovery of these advances has been sporadic. However, company is expecting the recovery of dues over the next two years.

Timely recoverability of such dues from developer remain susceptible to the inherent cyclicity of the real estate company and will remain a key rating sensitivity.

Intensive working capital operations

TRML operations are working capital intensive marked by GCA days of 260 days in FY22 as against 412 days in FY21. The high GCA days are driven by inventory holding period and other current assets. Inventory holding period of the company improved at 92 days in FY22 as against 135 days in FY21 and 118 days in FY20. The other current assets of the company comprise of dues form developers under the development agreement of Ruby towers. The current portion of due form developers stood at Rs. 61.70 crore as on 31st March 2022 as against Rs. 30.84 crore as on 31st March 2021 and Rs. 59.84 crore as on 31st March 2020. The debtor collection period improved at 47 days in FY22 as against 60 days in FY21 and 32 days in FY20. The higher debtor collection period in FY21 was on account of higher sales during the last quarter of FY21. The creditor days of the company stood at 128 days in FY22 as against 155 days in FY21 and 114 days in FY20.

Acuite believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Susceptibility to volatility in prices of key raw materials

Cotton, Viscose and Polyester are the key raw materials for the company. Prices of such raw materials have exhibited considerable volatility in the recent past due to various reasons, such as government policies, effects of monsoon, demand-supply scenario, etc. The Profitability margins of textile manufacturers are exposed to adverse movement in prices of these raw materials thus any unprecedented increase in the raw material going forward, may impact the profitability margins of TRML.

Rating Sensitivities

- Sustained growth in scale of operations and profitability
- Timely recovery of dues from developers
- Stretch in working capital and deterioration in liquidity position

Material covenants

None

Liquidity Position

Adequate

Liquidity of the company is adequate with sufficient net cash accruals to repay its debt repayment obligation. Net cash accruals of the company stood at Rs. 40.18 crore as against repayment obligation of Rs. 12.13 crore. The company is likely to generate sufficient net cash accruals in the range of 53-64 crore as against repayment obligation of Rs.19-20 crore. TRML's reliance on working capital limits is moderate with average bank limit utilisation at 50.13 percent for six months ended September 2022. The company maintains unencumbered cash balance of Rs. 3.38 crore as on 31st March 2022.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of likely improvement in scale of operations and healthy cash accruals against its debt repayment obligation

Outlook: Stable

Acuite believes that TRML will maintain a 'Stable' outlook over the medium term on the back of its experienced track record of operations and long track record of operations. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	199.08	124.85
PAT	Rs. Cr.	31.05	25.85
PAT Margin	(%)	15.59	20.71
Total Debt/Tangible Net Worth	Times	0.53	0.79
PBDIT/Interest	Times	5.76	6.16

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

None

Any other information

TRML and its promoters had been involved in a controversy on a particular NPA account of a lender where the borrower had made an advance to TRML. The management has however, informed Acuite that they were not a party in the legal proceedings against the prospective buyer by their lenders. Acuite takes cognizance of the issue and any adverse action against the company or its promoters will remain a key monitorable.

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Buyers Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.78	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.78	ACUITE BBB- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.97	ACUITE BBB- Stable Assigned
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.25	ACUITE BBB- Stable Assigned
HDFC Ltd	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	180.88	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	8.10	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	15.36	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Lease Rental Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	7.68	ACUITE BBB- Stable Assigned
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.09	ACUITE BBB- Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.31	ACUITE BBB- Stable Assigned

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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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