

Press Release

Registan Exports

July 22, 2021

Rating Upgraded, Reaffirmed & Assigned



Total Bank Facilities Rated	Rs.13.50 crore
Long Term Rating	ACUITE B+/ Stable (Upgraded)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B Plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 13.50 crores bank facilities of Registan Exports (RE). The outlook is '**Stable**'.

The rating upgrade is driven by an improvement in the overall business risk profile of the firm marked by higher operating margin, comfortable current ratio as well as better cost efficiencies. The rating upgrade also factors in the long standing experience of the promoters and healthy order book position buoyed by repeat orders from its domestic and global vintage clientele. These strengths are partly offset by the working capital intensity in RE's operations and exposure to competition in the industry.

About the firm

Established in 1990, Registan Exports (RE) is a Jaipur (Rajasthan) based partnership firm, engaged in the business of manufacture and exports of women and kids apparels. The firm is currently exporting to several countries mainly USA, UK, Europe, Middle East, Africa and Australia. Currently, the firm is headed by Mr. Akash Gupta, Mrs Anita Gupta and Harshal Gupta.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RE to arrive at the rating

Key Rating Drivers

Strengths

- Established track record of operation and experienced management**

RE benefits from the industry experience of its promoters, who have been in the RMG segment for nearly three decades. The firm's clientele includes leading domestic brands/retail chains namely Reliance Retail Limited and Lifestyle stores. Further, the firm also has a long standing relationship with its clients spread across the globe, mainly in USA, UK, Europe, Middle East, Africa and Australia. Acuite believes the rich experience of the promoters and healthy relations with customers and suppliers will continue to support the business going forward.

- Sustained revenue recovery amidst nationwide lockdown coupled with steady order book position**

Registan Exports has managed to achieve steady level of revenues of Rs. 8.23 Cr in FY2021 (Provisional) even though the ready-made garment (RMG) industry's operating performance was negatively impacted in FY21 due to COVID-19 led demand reduction in the domestic apparel market and supply disruptions in the export markets. RE has an unexecuted steady order book position to the tune of about Rs. 4.34 crores as on 31st May, 2021 which will be executed in the next two months, thus providing moderate revenue visibility over the medium term.

The operating margin of the firm increased to 9.79 per cent as on 31st March, 2021 (Provisional) as compared to 8.88 per cent in the previous year. The PAT margins stood at 0.44 per cent in FY2021 as against 0.50 per cent as on FY2020. The ebbing ROCE in FY2021 (Provisional) at 4.33 per cent as against 8.12 percent of last financial year highlights the fixed manufacturing overhead costs and usage of covid loan to the tune of 1.33 Cr. The

lower raw material cost has helped in maintaining the operating margin though. The other fixed-cost reduction measures undertaken by the firm, such as salary reductions, and rationalization of administration and selling overhead costs have helped the firm to remain afloat during this pandemic situation.

Weakness

- **Moderate financial risk profile**

The firm's moderate financial risk profile is marked by low albeit improving networth, moderate gearing and moderate debt protection metrics. The tangible net worth of the firm increased to at Rs. 3.31 Cr as on 31st March, 2021 (provisional) from Rs.3.21 Cr as on 31st March, 2020. Gearing of the firm stood at 2.48 times as on 31st March, 2021 (provisional) as compared to 2.32 times as on 31st March, 2020. The debt of Rs.8.21 Cr mainly consists of working capital borrowing of Rs. 3.66 Cr, long term debt of Rs. 2.43 Cr and current maturity of term loan of Rs.0.30 Cr as on 31st March 2021 (Prov.). The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 2.97 times as on 31st March, 2021 (provisional) as against 2.87 times as on 31st March, 2020. The moderate debt protection metrics of the firm is marked by Interest Coverage Ratio (ICR) at 1.90 times as on March 31, 2021 (prov.) and Debt Service Coverage Ratio at 1.28 times as on March 31, 2021 (prov.). Net Cash Accruals/Total Debt (NCA/TD) stood at 0.05 times as on 31st March, 2021 (prov.). Acuite believes that financial risk profile is expected to be moderate over the medium term, in absence of any major debt funded capex plans.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the firm is marked by high Gross Current Assets (GCA) of 390 days as on March 31, 2021 (provisional) similar as against 249 days as on March 31, 2020. The high GCA days are on account of high inventory period which stood at 311 days as on March 31, 2021 as compared to 155 days as on 31st March 2020. Since COVID, supply chain hiccups were common, the firm found it difficult to distribute their finished products and there has been inventory build-up, increasing the cost of storage in FY 2021. Also, to adjust with the unpredictable covid scenarios and prevent future inventory shortages, the firm kept buffer inventory in hand. Further, the debtor days stood high at 96 days as on 31st March, 2021 (prov.) against 86 days in the previous year. Going forward, Acuite believes that the working capital management of the firm will remain at similar levels as evident from moderate collection mechanism and high inventory levels over the medium term.

- **Intense competition in the industry**

RE's business risk profile remains constrained by its small scale of operations in the intensely competitive textile industry. Being a small player, RE have limited pricing flexibility and constrained profitability and is therefore, exposed to intense competition against the large players having better efficiencies and pricing power.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle

Material Covenant

None

Liquidity Profile: Adequate

The firm's liquidity position is adequate marked by comfortable current ratio at 1.62 times as on March 31, 2021 (provisional) as compared to 1.41 times as on 31st March, 2020. The fund based limit remained moderately utilised at 73 per cent over one year ended April, 2021. The net cash accruals stood at Rs.0.38 Cr in FY2021 (Provisional) as against a maturing obligation of Rs.0.20 Cr over the same period. The cash and bank balances of the firm stood at Rs.0.06 Cr in FY2021 (Provisional) as compared to Rs. 0.17 Cr in FY2020. Further, the firm has availed loan moratorium and also applied for additional covid loan of Rs. 1.33 Cr. The working capital intensive nature of operations of the firm is marked by Gross Current Assets (GCA) of 390 days as on March 31, 2021 (provisional) as against 249 days as on March 31, 2020. Acuite believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuite believes that the outlook on RE will remain 'Stable' over the medium term on account of the experience of the promoters and adequate liquidity position. The outlook may be revised to 'Positive' in case of significant growth

in revenue while achieving sustained improvement in operating margins, capital structure and working capital management.. Conversely, the outlook may be revised to 'Negative' in case of further decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	8.23	12.42
PAT	Rs. Cr.	0.04	0.06
PAT Margin	(%)	0.44	0.50
Total Debt/Tangible Net Worth	Times	2.48	2.32
PBDIT/Interest	Times	1.90	1.55

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
18-Aug-2020	Cash Credit	Long term	1.50	ACUITE B Issuer not co-operating
	Term Loan	Long term	0.43	ACUITE B Issuer not co-operating
	Term Loan	Long term	0.19	ACUITE B Issuer not co-operating
	Term Loan	Long term	0.09	ACUITE B Issuer not co-operating
	Proposed bank Facilities	Long term	7.79	ACUITE B Issuer not co-operating
	EBD/EBP/EBN*	Short Term	1.50	ACUITE A4 Issuer not co-operating
	Packing Credit	Short Term	2.00	ACUITE A4 Issuer not co-operating
03-June-2019	Cash Credit	Long term	1.50	ACUITE B / Stable (Assigned)
	Term Loan	Long term	0.43	ACUITE B / Stable (Assigned)
	Term Loan	Long term	0.19	ACUITE B / Stable (Assigned)
	Term Loan	Long term	0.09	ACUITE B / Stable (Assigned)
	Proposed bank Facilities	Long term	7.79	ACUITE B / Stable (Assigned)
	EBD/EBP/EBN*	Short Term	1.50	ACUITE A4 (Assigned)
	Packing Credit	Short Term	2.00	ACUITE A4 (Assigned)

*100% Interchangeability allowed between PC, EBP/EBD/EBN and Packing Credit

***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	3.60	ACUITE B+/Stable (Upgraded)
Term Loan	15-Jun-2019	9.10%	31-Mar-2025	2.50	ACUITE B+/Stable (Upgraded)
Proposed fund based facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE B+/Stable (Upgraded)
Packing Credit*	Not Applicable	Not Applicable	Not Applicable	1.30	ACUITE A4 (Reaffirmed)
EBD/EBP/EBN*	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE A4 (Reaffirmed)
Forward Contract	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Assigned)

*100% Interchangeability allowed between CC, PC and EBP/EBD/EBN within MPBF.

Contacts

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in Srijita Chatterjee Analyst - Rating Operations Tel: 033-6620 1212 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.