



Press Release

R C Apparels

May 12, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple / High / Complex)
Long Term Bank Facilities	15.96	IVR BB (Stable) [IVR Double B with Stable Outlook]	Assignment	Simple
Short Term Bank Facilities	0.10	IVR A4 [IVR A Four]	Assignment	Simple
Total	16.06	INR Sixteen Crores & Six Lakhs		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of R C Apparels factors extensive experience of the partners in the readymade garments manufacturing industry, the demonstrated track record of the company, reputed client base which includes some of the leading readymade garment brands of the country hereby providing with a long-term revenue visibility and moderate financial risk profile. The rating is however constrained by the significant decline in sales limiting economies of scale, decline in profitability leading to deterioration in coverage indicators, an elongated conversion cycle deteriorating liquidity position and the inherent risk of being a partnership firm.

The Stable outlook indicates a low likelihood of a rating change over the medium term.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the scale of operations as envisaged thereby leading to improvement of profitability and debt protection parameters.
- Improvement in the working capital cycle and capital structure with improvement in overall gearing.

Downward Factors



Press Release

- Elongation of working capital cycle driven by pile up of inventory and stretch in receivables
- Decline in revenues and profitability leading to weakening of financial risk profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive Experience of Partners** – The promoters of the firm are having more than three decades of experience in the textile industry which gives the firm advantage like knowledge of local market conditions, healthy relations with suppliers and customers leading to repeat orders.
- **Association with reputed brands:** The firm has association with some of the leading clothing brands in the country like Benetton, Pepe Jeans, ITC, Spykar etc which lends it a great advantage and reduces counter party risk
- **Moderate Orderbook Position** – The firm has an unexecuted order book position in tune of Rs 78.94cr providing a short-term revenue visibility.

Key Rating Weaknesses

- **Decline in Revenue-** The firm's operating income declined significantly to Rs 40.04cr in FY21 from Rs.63.30 Crores in FY20 on account of lockdowns faced due to Covid 19 impacting economies of scale. However, the firm is recovering, and the firm has achieved revenues in tune of Rs 94.89cr for a period from April to March 22. However, the scale of operations remains relatively modest limiting economies of scale for the firm.
- **Deterioration in Coverage Metrics: Interest** Coverage metrics of the firm as indicated by ISCR has deteriorated considerably to 1.05X in FY21 from 1.39X in FY20. The DSCR of firm continues to remain low at 1.27X in FY21.
- **Stretched operating cycle-** The operations of the firm are working capital intensive as they had to maintain a high level of inventory on account of Covid19 which has led to a high inventory holding period of 250 days and operating cycle of 247 days in FY21.



Press Release

- **Highly competitive industry-** India being a major textile hub, there are numerous players in the market at all levels which makes it a highly fragmented one limit price flexibility & impacting profitability margins.
- **Constitutional risk of a partnership firm** - Being a partnership firm, it is exposed to inherent risks of capital being withdrawn at a time of personal contingency, risks of dissolution and limited avenues to raise capital which could prove a hindrance to the growth of the firm.
- **Customer Concentration Risk** - Top 5 customers contributes to around 95% of the total revenues indicating a high customer concentration risk.

Analytical Approach: Standalone

Applicable Criteria (Please add Hyperlink to the respective criteria):

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation Non- Financial Sector](#)

Liquidity – Stretched

The liquidity position of the company has remained stretched in FY21 as marked by its gross cash accrual (GCA) of INR 0.55 Cr in FY21 as against a repayment obligation of Rs 0.43cr. The average utilization of the entity stands at 65.80% for a period of April to March 22. The current ratio remains comfortable at 1.88X as on March 31, 2021. However, going ahead with an increase in revenues for FY22 due to pent up demand, the liquidity position of the company is expected to improve. The working capital cycle is also expected to remain comfortable and the same needs to be monitored going ahead.

About the Company

R C Apparels is a Gurgaon based partnership firm which was registered in the year 2006 and is engaged in the manufacturing of readymade garments of both denim & non-denim variety. The firm has manufacturing units in Gurgaon wherein readymade clothes such as Men's Shirts, Bottomwear and Kurtis for women which are manufactured from cotton and



Press Release

denims and supplies to various reputed brands such as Pepe Jeans India Ltd, ITC Ltd, Aditya Birla Fashion & Retail Ltd, Spykar Lifestyle Pvt. Ltd., Benetton India Pvt Ltd.

Financials (Standalone):

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income*	63.25	39.76
EBITDA	3.70	3.04
PAT	0.19	0.19
Total Debt (Adjusted)	11.74	15.32
Tangible Networth (Adjusted)	16.77	16.31
Ratios		
EBITDA Margin (%)	5.85	7.66
PAT Margin (%)	0.30	0.46
Overall Gearing Ratio (Adjusted) (x)	0.70	0.90

*The company has earned revenues in tune of ~Rs 94.89cr for FY22

Status of non-cooperation with previous CRA: NA

Any other information:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	2020-21	2019-20	2018-19
1.	Fund Based	Long Term	15.96	IVR BB (Stable)	NA	NA	NA
3.	Non Fund Based	Short Term	0.10	IVR A4	NA	NA	NA
	Total*		16.06				

*Details in Annexure I

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About Infomerics:



Press Release

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities - Cash Credit	-	-	-	11.50	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
Long Term Fund Based Bank Facilities - Term Loan	-	-	-	3.00	
Long Term Fund Based Bank Facilities - GECL	-	-	-	1.46	
Short Term Non-Fund Based Bank Facilities - Bank Guarantee	-	-	-	0.10	IVR A4 (IVR A Four)

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details <https://www.infomerics.com/admin/prfiles/Lender-RCA-12-05-2022.pdf>



Press Release

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: The Terms of sanction include standard covenants normally stipulated for such facilities.

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Term Loan	Simple
3.	GECL	Simple
4.	Bank Guarantee	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.