Press Release

R C Apparels

November 13, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities- Term Loan	2.19 (Reduced from Rs. 2.59 crore)	IVR BB/Stable (IVR Double B with Stable Outlook)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Downgraded	**Simple**
Long term Bank Facilities- Cash Credit	16.50	IVR BB/Stable (IVR Double B with Stable Outlook)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Downgraded	**Simple**
Short Term Bank Facilities- Bank Guarantee	0.10	IVR A4 (IVR A Four)	IVR A4+ (IVR A Four Plus)	Downgraded	**Simple**
Total	**18.79 (Rupees Eighteen crore and seventy nine lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded its rating to the bank facilities of R C Apparels on account of substantial decline in the FY 24 revenue and considering that the business prospects continue to remain weak for FY25. The ratings however continue to derive strength from flexibility in operations, association with reputed brands and extensive experience of partners. However, these rating strengths are partially offset due to weakening of the demand scenario in textile industry, risks associated with partnership nature of the enterprise, customer concentration risk and significant working capital requirements.

The 'Stable' outlook reflects Infomerics' view that the company will be able to maintain its operating profitability margins at ~ 5%-6% levels (similar to FY24), given its ability to curtail its fixed expenses in response to changes in market conditions. Even at the present scale of operations, the debt coverage metrics appear to be adequate.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in the revenue and margins thereby leading to improvement in cashflows and debt protection parameters.
- Significant improvement in working capital cycle

Downward Factors

- Decline in revenues and profitability leading to weakening of financial risk profile
- Elongation of working capital cycle dampening the liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Flexibility in operations**
  R C Apparels operates on an asset-light business model with all of its premises taken on lease. In response to reduced demand from its major clients in FY24, the firm scaled down its manufacturing units from six to three. Additionally, it has adjusted its leased premises in line with the evolving business landscape. Despite this downsizing, the firm has managed to maintain stable EBITDA margins at 5.27% in FY24(A). The stitching and cutting machines used in apparel manufacturing are relatively inexpensive, allowing the firm to increase capacity with modest capital expenditure, based on demand. The firm remains focused on generating strong gross cash accruals, even amid business volatility.

- **Association with reputed brands**
  The firm has been associations with some of the leading clothing brands in the country like Benetton, Pepe Jeans, Reliance Retail Limited, ITC, Spykar etc for several years which lends it a advantage in terms of large orders and also reduces counter party risk.

The firm has been able to achieve significant scale of operations on the back of regular orders from the above key clients.

- **Extensive Experience of Partners**

  Mr. Amit Jain has more than 22 years of experience while Mr. Abhishek Jain (his brother) has more than 17 years of experience in the textile industry which gives the firm advantage like knowledge of local market conditions, and long association with customers leading to repeated orders from them.

Key Rating Weaknesses

- **Weakening of the demand scenario in textile industry**

  In India, the textile industry is experiencing a decline in demand due to factors such as economic uncertainty, rising raw material costs, and shifting consumer preferences. There has been a slowdown in both domestic and export orders in FY24 and in the current year due to diminished purchasing capacity of consumers with wage levels not kept in pace with inflation and also due to supply chain disruptions further impacting production. As a result, several textile companies have scaled back operations and reduced capacity to adapt to the lower demand. The outlook for recovery remains uncertain, depending on the improvement of economic conditions and the stabilization of global supply chains.

- **Constitutional risk of a partnership firm**

  Being a partnership firm, it is exposed to inherent risks of capital being withdrawn at a time of partners' personal contingency, risks of dissolution and limited avenues to raise capital which could prove a hindrance to the growth of the firm, and also lead to liquidity mismatches.

- **Customer Concentration Risk**

  The top five customers account for approximately 95% of the firm's total revenue, highlighting a significant customer concentration risk. Additionally, reduced demand from these key clients has contributed to the overall decline in the firm's total operating income.

- **Significant working capital requirements**
  The firm has got limited bargaining power with its clients who are large corporates and multi-national companies and is forced to offer significant credit to them. Additionally, the firm has to maintain large inventory of WIP and finished goods in order to supply to its clients on timely basis.

Analytical Approach: Standalone

List of companies considered for consolidation/combined analysis is given at Annexure 4.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Criteria on assigning rating outlook
Policy on Default Recognition and Post-Default Curing Period
Complexity Level of Rated Instruments/Facilities
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The company's liquidity is adequate marked by ~92% average utilization of fund-based working capital limits (of Rs. 16.50 crore) for last 12 months ended September 2024. It expects moderate cushion in cash accrual against its scheduled debt repayment obligation. The current ratio and quick ratio of the company stood at 1.52x and 0.40x respectively as on March 31, 2024. The gross cash accruals are expected to be in the range of ~Rs. 1.6 to 1.8 crore annually against the annual repayment obligation of ~Rs. 0.70 crore, hence, will provide a moderate cushion to the liquidity of the company

About the Firm

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, bottom wear and kurtis for women which are manufactured from cotton and denims and supplies to various reputed brands such as Pepe Jeans India Ltd, ITC Ltd, Aditya Birla Fashion & Retail Ltd, Reliance Retail, Spykar Lifestyle Pvt. Ltd., Benetton India Pvt Ltd

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	189.64	111.86
EBITDA	10.76	6.32
PAT	1.28	0.20
Total Debt	19.16	19.17
Tangible Net Worth	12.44	19.46
EBITDA Margin (%)	5.67	5.65
PAT Margin (%)	0.67	0.18
Overall Gearing Ratio (x)	0.73	0.99
Interest Coverage (x)	1.58	1.40

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

Sr. No	Name of Security/Facilities	Current Ratings (Year T)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in T-1	Date(s) & Rating(s) assigned in T-2	Date(s) & Rating(s) assigned in in T-3
					Date (September 14, 2023)	**Date** (July 13, 2023)	**Date** (May 12, 2022)
1.	Term Loan	Long Term	2.19	IVR BB/Stable	IVR BB+/Stable	IVR BB-/Negative; Issuer Not Cooperating	IVR BB/Stable
2.	Cash Credit	Long Term	16.50	IVR BB/Stable	IVR BB+/Stable	IVR BB-/Negative; Issuer Not Cooperating	IVR BB/Stable
3.	Bank Guarantee	Short Term	0.10	IVR A4	IVR A4+	IVR A4; Issuer Not Cooperating	IVR A4

Analytical Contacts:

Name: Mr. Sudarshan Shreenivas

Tel: 022) 6239 6023

Email: sudarshan.shreenivas@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	2029	2.19	IVR BB/Stable
Cash Credit	-	-	-		16.50	IVR BB/Stable
Bank Guarantee	-	-	-		0.10	IVR A4

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-RC-Apparels-nov24.pdf
Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.