Rainbow Fabart Private Limited

June 11th, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	12.52	IVR BBB-; Stable (IVR triple B minus with stable outlook)	Assigned	Simple
Short Term Bank Facilities	47.48	IVR A3 (IVR A three)	Assigned	Simple
Total	**60.00**	**(Rupees Sixty crore sonly)**		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has assigned long term rating of IVR BBB- with a Stable outlook and short-term rating of IVR A3 for the bank loan facilities of Rainbow Fabart Private Limited (RFPL).

The rating assigned to the bank facilities of RFPL draws comfort from extensive experience of promoters with improvement in scale of operations and strong debt protection metrics. However, these rating strengths are partially offset by intense competition in the industry resulting in limited price flexibility coupled with geographical and client concentration risk. The ratings further remain constrained by vulnerability to regulatory risk and adverse foreign currency exchange rates.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. IVR believes that RFPL will continue to benefit from its operational track record in the business and regular inflow of orders.

IVR has principally relied on the standalone audited financial results of RFPL up to 31st March 2023 and provisional financial results up to 31st March 2024 with the projected financials for FY2025 (refers to period April 1st, 2024, to Mar 31, 2025), FY2026 (refers to period April 1st, 2025, to Mar 31, 2026) and FY2027 (refers to period April 1st, 2026, to Mar 31, 2027), and publicly available information/ clarifications provided by the firm’s management.

Key Rating Sensitivities:

Upward Factors

- Significant and sustained growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Effective working capital management with improvement in operating cycle and liquidity

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any further deterioration in the financial risk profile
- Any further significant rise in working capital intensity or unplanned capex leading to moderation of credit metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of promoters:**

RFPL is managed by Mr. Rajeev Mehta. He has been engaged in same industry for more than 2 decades. The extensive experience of the promoters is also reflected through the established relationship with its suppliers and customers. Also, under the leadership of its promoters and their established network, the company has been able to maintain growth momentum over the last few years. The promoters are supported by team of qualified & experienced professional.

- **Improvement in scale of operations and profitability**

Total operating income witnessed an increase and stood at Rs. 189.94 crore in FY24 (Prov.) as against Rs. 168.05 crore in FY23. The company witnessed increase in its operating income in FY24 due to increase in sales volume and reduction of fixed cost per unit on account of increase in capacity per year. EBITDA increased from Rs. 11.00 crore in FY23 to Rs. 15.92 crore in FY24 (Prov.). EBITDA margin increased by 184 bps and stood at 8.38% in FY24

(Prov.) as against 6.55% in FY23, due to decrease in consumption cost of raw material. PAT increased from Rs. 7.14 crore in FY23 to Rs. 8.20 crore in FY24 (Prov.). PAT margin increased by 10 bps and stood at 4.28% in FY24 (Prov.) as against 4.18% in FY23, in line with EBITDA Margin. Gross Cash Accruals (GCA) of the company stood at Rs. 12.33 Crore in FY24 (Prov.) as against Rs 9.77 Crore in FY23.

- **Healthy debt protection metrices**

The company has healthy debt protection matrices with interest service coverage ratio (ISCR) stood more than 5x in FY23 and FY24. ICSR decreased to 6.70x in FY24(Prov.) as against 7.70x in FY23, due to increase in interest and finance charges but remained robust. Debt service coverage ratio (DSCR) also stood comfortable at 2.89x in FY24 (Prov.) as against 2.14x in FY23.

Key Rating Weaknesses

- **Competitive and working capital-intensive nature of the industry**

The company faces stiff competition from many players in the domestic as well as international market, which exerts pressure on its profitability as well as scale of business operations. The operations of the company are also very capital intensive in nature, as seen in the periodic upgrades of machinery and expansion of capacity, typically occurring in last few years. RFPL’s operating cycle days stood at 76 days in FY24(Prov.) with collection period of 113 days and creditors period of 79 days with an increase in scale of operations.

- **Vulnerability to regulatory risk and forex risk**

The company being in exports business remains exposed to any changes in regulatory environment resulting in changes in export incentives. Further the margins remain susceptible to fluctuations in foreign exchange rates due to export dominated revenue profile. RFPL hedges a portion of its exposure using forward covers, which mitigate the forex risk to an extent.

- **High geographical and client concentration risk**

RFPL has ~99% of its top line contributed by exports from the three major countries i.e., Spain, UK and Ireland, leading to geographical concentration risk. Further the client concentration risk also remains high with top 3 customers contributing majority of sales. Nonetheless long and satisfactory rack record remains comforting factor.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Instrument/Facility wise Default Recognition & Post-Default Curing period

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company's liquidity is adequate marked by expectation of sufficient cushion in cash accruals against its debt repayments for the next 3 years. The company has current ratio of 1.26x as of March 31, 2023. The unencumbered cash and bank balance of company stood at Rs. 5.84 Crores as on 31st March 2023. The average utilisation of fund-based limits remains moderate with around 55.08% and non-fund-based limits at 40.81%, during the past 12 months ended April'24. RFPL's operating cycle days stood at 76 days in FY24(Prov.) with collection period of 113 days and creditors period of 79 days with an increase in scale of operations. Debt service coverage ratio (DSCR) stood comfortable at 2.89x in FY24 (Prov.) as against 2.14x in FY23.

About the Company

Rainbow Fabart Private Limited (RFPL) was formed as a partnership firm by Mr Rajeev Mehta in 1992, and reconstituted as a private limited company in 2003, based in Noida, Uttar Pradesh and registered office situated at B-2 ANSAL VILLAS, KHASRA NO.658 VILLAGE SATBARI, MEHRAULI, Southwest Delhi, NEW DELHI, Delhi, India, 110074. The company is engaged in manufacturers of knit/woven.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	131.93	168.05
EBITDA	7.52	11.00

PAT	4.13	7.14
Total Debt	40.97	35.95
Tangible Net Worth	28.82	35.95
Ratios		
EBITDA Margin (%)	5.70	6.55
PAT Margin (%)	3.09	4.18
Overall Gearing Ratio (x)	1.42	1.00

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022
1.	Fund based	Long Term	12.52	IVR BBB- (Stable)	-	-	-
2.	Fund based	Short term	38.00	IVR A3	-	-	-
3.	Non fund based	Short Term	9.48	IVR A3	--	--	--

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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 visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	27.04.2025	1.65	IVR BBB-/ Stable
Term Loan 2	-	-	31.03.2029	10.00	IVR BBB-/ Stable
GECL	-	-	27.04.2025	0.87	IVR BBB-/ Stable
EPC	-	-	-	35.00	IVR A3
SLC	-	-	-	3.00	IVR A3
LC/ BGs	-	-	-	5.00*	IVR A3
Derivative /FC / CL	-	-	-	1.50	IVR A3
LC/ BGs – Proposed	-	-	-	2.98	IVR A3

**Includes sublimit of BG for Rs. 0.50 Crore*

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

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-RainbowFabart-june24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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.