Press Release

Rameswar Udyog Private Limited

April 06, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	26.54 (reduced from Rs.33.71 crore)	IVR BBB/ Stable (IVR Triple B with Stable Outlook)	Revised from IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Simple
Short term Bank Facilities	49.00 (reduced from Rs.58.59 crore)	IVR A3+ (IVR A Three Plus)	Revised from IVR A3 (IVR A Three)	Simple
Total	**75.54 (Rupees Seventy Five crore and Fifty Four lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in ratings of the bank facilities of Rameswar Udyog Private Limited (RUPL) factors in the significant improvement in its performance in 10MFY22.

The ratings continue to factor in the experience of its promoters, established presence in the yarn segment, geographically diversified operations, comfortable operating cycle and comfortable capital structure. RUPL's ratings continue to remain constrained by intense competition in the industry and susceptibility of its profitability to fluctuation in raw material prices.

Key Rating Sensitivities:

Upward Factors

- Substantial growth in operating income and profitability on a sustained basis
- Improvement in capital structure with overall gearing ratio of less than 1.0x on a sustained basis

Downward Factors

- Any decline in scale of operations and/or moderation in profitability
- Deterioration in capital structure with overall gearing ratio of more than 2.0x on a sustained basis
- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

Incorporated in 1996, RUPL is promoted by Mr.Harsh Ajitsaria and Mr.Abhay Ajitsaria. Both the promoters have more than two decades of experience in the industry, which has enabled strong relationships with various industry players, including suppliers and customers.

Geographically diversified operations

Exports constituted 73% of the company's revenue in FY21 as compared to 84% in FY20. RUPL exports to many countries (including Turkey, Iran, Egypt, the UAE, Czech Republic, Italy and Mauritius). Given that either export sales are backed by letters of credit or have advance payment mechanism, the receivables risk faced by the company is negligible.

Significant improvement in performance in 10MFY22

RUPL's total operating income declined by 9.34% in FY21, from Rs.377.50 crore in FY20 to Rs.338.80 crore in FY21, due to the Covid-19 related disruption in operations in H1FY21. However, its EBITDA margin improved marginally from 5.75% in FY20 to 6.04% in FY21 due to an increase in the global demand resulting in improved profitability in H2FY21. PAT margin, declined from 2.27% in FY20 to 1.67% in FY21 due to the sharp rise in interest cost during the year.

Subsequently, with increased cotton prices and higher global demand for cotton and cotton products, RUPL reported a significant improvement in total operating income to Rs.495.53 crore in 10MFY22. The improvement was also supported by the reimbursement that commenced under Remission of Duties and Taxes on Export Products Scheme from January 2021. In line with this, the profitability margins of the company improved with EBITDA margin of 7.17% and PBT margin of 5.26% in 10MFY22. Going forward, RUPL is expected to benefit from the strong global demand of cotton products.

Comfortable capital structure

The company's capital structure deteriorated, with overall gearing and TOL/ TNW ratios of 2.03x and 2.48x respectively as on March 31, 2021 as compared to 1.84x and 2.41x respectively as on March 31, 2020 primarily due to the increase in working capital borrowings to fund the increase in operating cycle. Consequently, the interest expenses increased from Rs.6.08 crore in FY20 to Rs.9.29 crore in FY21 and GCA declined from Rs.13.66 crore in FY20 to Rs.11.77 crore in FY21, leading to a deterioration in the interest coverage ratio and total debt/GCA ratio from 4.04x and 5.30x respectively in FY20 to 2.38x and 7.77x respectively in FY21.

However, the company reported interest coverage of 7.66x in 10MFY22 (unaudited) and overall gearing of 1.30x as on January 31, 2022 (unaudited). The interest coverage has improved in 10MFY22, on account of reduced interest expense with repayment of higher interest bearing term loans, and increase of low interest bearing Covid-19 loans.

Comfortable operating cycle

The procurement of cotton lint is higher during the harvest season i.e., from December-March resulting in higher inventory level during the year end. The requirement of cotton stocking during the harvest season to support manufacturing operations results in working-capital

intensive operations and increases price risks. The inventory holding period increased from 18 days in FY20 to 30 days in FY21; RUPL increased its inventory to counter consistent increase in the cotton prices. Further, the high variety of products offered by the company necessitates maintenance of higher inventory.
Further, the payment terms with export customers were changed post Covid-19, wherein LCs of 90 days are given instead of previously given LCs of 30-45 days; RUPL does not extend any credit in the domestic market. Accordingly, the working capital cycle increased from 47 days in FY20 to 63 days in FY21, but continued to remain comfortable.

Key Rating Weaknesses
Intense competition in the industry
The spinning and trading industry is highly fragmented and competitive with the presence of a large number of organised and unorganised players. Intense competition in the industry and commoditised nature of the product limit RUPL's pricing flexibility and bargaining power.

Susceptibility of its profitability to fluctuation in raw material prices
The company's profit margins are exposed to the fluctuation in raw material prices, which depend on factors such as seasonality, monsoon condition, international demand and supply situation, export policy etc.

Analytical Approach: Standalone

Applicable Criteria:
Criteria of assigning Rating Outlook
Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity: Adequate
The company maintains moderate cash and bank balance to meet its liquidity requirements. In FY21, the company had Gross Cash Accruals of Rs.11.77 crore as against repayments of Rs.7.17 crore. The average utilization of working capital limits remained low at around 53% during the 12 months ended February 28, 2022, providing liquidity cushion. Further, the company does not have any major capex planned over FY22-FY24.

About the Company:
Incorporated in November 1996, RUPL is promoted by Mr. Harsh Ajitsaria and his family members. Based in Ahmedabad, the company primarily manufactures and trades cotton yarn. In addition, it also manufactures industrial garments and trades fabrics, dyes, cotton and cotton waste. Its manufacturing facilities located at Ahmedabad had a total installed capacity of 21,888 spindles as on March 31, 2021. It also had industrial garment manufacturing capacity of 6 lakhs as on March 31, 2021.

Financials (Standalone):

(Rs. crore)

For the year ended / As on*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	377.50	338.80
EBITDA	21.72	20.47
PAT	8.59	5.72
Total Debt	72.34	91.47
Tangible Net worth	39.29	45.01
Ratios		
EBITDA Margin (%)	5.75	6.04
PAT Margin (%)	2.27	1.67
Overall Gearing Ratio (x)	1.84	2.03

**As per Infomerics' standards*

Status of non-cooperation with previous CRA:

- Brickwork Ratings vide its press release dated May 12, 2021 continues to classify the rating of RUPL's bank facilities under Issuer Not Cooperating category on account of non-submission of relevant information.
- ICRA vide its press release dated April 23, 2021 continues to classify the rating of RUPL's bank facilities under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21 (January 28, 2021)	Date(s) & Rating(s) assigned in 2019-20 (December 27, 2019)
1.	Term Loan	Long Term	26.54	IVR BBB/ Stable	-	IVR BBB-/ Stable	IVR BBB-/ Stable
2.	EPC/PCFC*	Short Term	27.00	IVR A3+	-	IVR A3	IVR A3
3.	LC Bill Discounting	Short Term	20.00	IVR A3+	-	IVR A3	IVR A3
4	Bank Guarantee	Short Term	2.00	IVR A3+	-	IVR A3	IVR A3

**Includes sub-limit of Cash Credit of Rs.15.00 crore and FDBP/FUDBP/FCBRD of Rs.27.00 crore.*

Name and Contact Details of the Rating Analyst:

Name: Ruchi Shah Tel: (022) 62396023 Email: ruchi.shah@infomerics.com	Name: Niriksha Gupta Tel: (022) 62396023 Email: niriksha.gupta@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.

Annexure 1: Details of Instruments/ Facilities:

Name of Instrument/Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan	-	-	March 2027	26.54	IVR BBB/ Stable
EPC/PCFC*	-	-	-	27.00	IVR A3+
LC Bill Discounting	-	-	-	20.00	IVR A3+
Bank Guarantee	-	-	-	2.00	IVR A3+

**Includes sub-limit of Cash Credit of Rs.15.00 crore and FDBP/FUDBP/FCBRD of Rs.27.00 crore.*

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Rameswar-Udyog-lenders-apr22.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.