



Infomerics Valuation And Rating Pvt. Ltd.

Ramkrishna Cotspin Private Limited

September 3, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	61.25	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2.	Bank Facilities- Short Term	3.75	IVR A3 (IVR A three)

Details of Facilities are in Annexure 1

Detailed Rationale

The rating draws comfort from its experienced promoters, proximity to raw material, established clientele and government sops, efficient working capital management and improvement in operating performance in FY19. These strengths are partially offset by its minimal credit period to customers, susceptibility to fluctuation in cotton and cotton yarn prices, forex risk and concentration risk. Growth in scale of operation and improvement in profitability, and efficient working capital management are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters

Mr. Trikambhai Patel has started Sahajanand ginning unit in 1980. Mr. Hasmukhbhai Patel, son of Mr. Trikambhai Patel, having vast experience in ginning and trading business through Sahajanand ginning, established White Gold Cotton & Oil Industries (WGCOI) in 2013. Leveraging their vast experience in ginning business, the promoters expanded into spinning business by setting up RCPL in 2015. The rich experience of the promoters has helped the company in building strong relationships with its suppliers and customers.

Proximity to raw material

Around 60% of raw material is procured from WGCOI which is a group company engaged in ginning business. Plant of both the companies are situated in close proximity to each other sharing



Infomerics Valuation And Rating Pvt. Ltd.

common boundaries leading to efficiency in managing the logistics and timely availability of raw materials.

Established clientele and government sops

Long presence of the promoters in cotton trading segment has helped the company to develop longstanding relationship with various intermediaries in the value chain. Beside the domestic market, gradually it also expanded its operation in the overseas market namely Bangladesh. RCPL receives certain subsidies from State and Central government. The company receives interest reimbursement till 7% of the term loan interest from the state government. Power subsidy at the rate of Re.1 unit is reimbursed to the company. Company has also received the reimbursements on custom duty charges on machinery under EPCG (Exports Promotion Capital Goods) scheme.

Efficient working capital management

Low credit period and advance payments from customers results into efficient working capital management. Average monthly utilization of CC limits over past 12 months till June-2019 is 49.46%.

Improvement in operating performance in FY19 (Prov.)

Total operating income has shown healthy growth of 27.49% in FY19 (Rs.163.40 crore) over FY18 (Rs.128.17 crore) mainly due to increase in demand of cotton yarn and increase in sales price realization. The growth was also driven by smoothening of GST related headwinds along with higher spreads between Indian and international cotton, which kept India cotton yarn prices competitive (in the export market). With increased sales realizations the EBIDTA margin of the company were maintained comfortably at 8.18% in FY18 and 8.03% in FY19 (Prov.). Further, the PAT margin also stood comfortable at 1.30% in FY18 and 2.31% in FY19 (Prov.).

Key Rating Weaknesses

Minimal Credit period to customers

RCPL offers minimal credit period to its customers as compared to industry standards, which creates an opportunity for the competitors to acquire client base of RCPL. However, low credit policy has resulted into efficient working capital management and low dependency on borrowed funds from banks.



Infomerics Valuation And Rating Pvt. Ltd.

Susceptibility to fluctuations in cotton and cotton yarn prices

The margins are highly susceptible to changes in the prices of cotton. The price of cotton is fixed by the government through the Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability. Additionally, demand for yarn to a large extent is driven by international demand supply dynamics, resulting in volatile margins.

Forex Risk

RCPL does not generally hedge its foreign exchange exposure, although exports accounted for only about 10% of the overall sales on an average, leaving it vulnerable to adverse movements in rupee. Unhedged position as on March 31, 2019 was around Rs.0.44 crore (~63000 USD).

Concentration risk

RCPL has its presence mainly in Gujarat, contributing 83% to top-line, followed by marginal contribution from other states- Tamil Nadu, Maharashtra, Madhya Pradesh, Punjab, Uttarakhand, Kerala, West Bengal, Rajasthan, and Haryana. RCPL also generates revenue from exports to Bangladesh, with export sales contributing 8.12% to the top line. This implies that RCPL is exposed to concentration risk.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Trading & Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The projected liquidity of RCPL appears to be adequate. Gross cash accruals are projected to be maintained at an adequate level. Going forward, the long term debt is likely to reduce indicating lower debt servicing obligations. The interest coverage ratio is projected at 3.47x in FY20 and 4.08x in FY21. RCPL has efficiently managed working capital in last 12 months with average



Infomerics Valuation And Rating Pvt. Ltd.

utilization of CC limits at 49%. All these factors indicate adequate liquidity support to the company in meeting its debt obligations.

About the Company

Mr. Trikambhai Patel, engaged in farming of cotton seeds, established a ginning unit in year 1980, Sahjanand Ginning in Dhrangadhra Gujarat. Mr. Hasmukhbhai Patel S/O Trikambhai Patel, having experience of trading and cotton farming through sahajanand ginning unit, established a firm, White Gold Cotton & Oil Industries (WGCOI) in 2013 engaged in ginning business. Having experience of manufacturing the raw cotton through ginning business, Hasmukhbhai Patel established Ramkrishna Cotspin Private Limited (RCPL) in year 2015, to expand into spinning business. Ramkrishna Cotspin Pvt Ltd, incorporated in 2015, Situated at Dhrangadhra, Gujarat, is spread across a total land of 33,690 sq. meters. RCPL's business is mainly concentrated in Gujarat while other geographies contributes marginally to top line. RCPL also exports its finished goods to Bangladesh.

Financials (Standalone):

For the year ended*	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	128.17	163.40
EBITDA	10.48	13.11
PAT	1.67	3.77
Total Debt	67.03	60.95
Tangible Net worth	36.33	40.10
EBITDA Margin (%)	8.18	8.03
PAT Margin (%)	1.30	2.31
Overall Gearing Ratio (x)	1.84	1.52

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil



Infomerics Valuation And Rating Pvt. Ltd.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	7.5	IVR BBB- /Stable	-	-	-
2.	Long Term Fund Based Limits – Long Term Loan	Long Term	53.75	IVR BBB- /Stable	-	-	-
3.	Short Term Non-Fund Based Limits – Letter of Credit/Bank Guarantee	Short Term	3.75	IVR A3	-	-	-

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.



Infomerics Valuation And Rating Pvt. Ltd.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Malik

Tel: (011) 2465 5636

Email: rmalik@infomerics.com

Name: Mr. Sriram Rajagopalan

Tel: (022) 62396023

Email: srajagopalan@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



Infomerics Valuation And Rating Pvt. Ltd.

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 Bank Facilities- Cash Credit	-	10.25%	On demand	7.50	IVR BBB- /Stable
Long Term Bank Facilities- Long Term Loan	-	10.25%	As per the terms of sanction	53.75	IVR BBB- /Stable
Short Term Bank Facilities – Letter of Credit/Bank Guarantee	-	As per the terms of sanction	Less than one year	3.75	IVR A3