

India Ratings Affirms Riba Textiles at 'IND BBB-/Stable; Limits Enhanced

24

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India Ratings and Research (Ind-Ra) has affirmed Riba Textiles Limited's (RTL) Long-Term Issuer Rating at 'IND BBB-'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limit	-	-	-	INR300.00 (increased from INR180)	IND BBB-/Stable/IND A3	Affirmed
Non-fund-based limit	-	-	-	INR12.00	IND BBB-/Stable/IND A3	Affirmed
Long-term loan	-	-	August 2022	INR260.00 (reduced from INR308)	IND BBB-/Stable	Affirmed

KEY RATING DRIVERS

Player in Niche Market; Experienced Promoters: RTL is a niche player in the terry towels and bath robes manufacturing business. Its clientele includes departmental stores and importers in 25 countries globally. Its promoters have around two decades of experience in the business, leading to established relationships with its customers and suppliers.

Medium Scale of Operations; Significant Revenue Growth: RTL's revenue grew in line with Ind-Ra's expectations to INR1,481.63 million in FY18 (FY17: INR1,117.90 million). The growth is mainly attributable to a 4,500mtpa additional capacity set up by the company during FY17. The company expects the top line to grow 15%-20% yoy in the near term, on back of the increased production capacity and orders inflow. The company is planning to deploy a marketing team overseas to garner a larger market share and add clients.

Average Margins; Raw Material Price Volatility: RTL's return on capital employed was 12.0% in FY18 (FY17: 11.5%) and operating margins were average at around 10% (8.41%). The rise in margins was owing to improved realisations. RTL's operating margins remain exposed to volatility in raw material prices i.e. cotton fabric. To mitigate this risk, the company employs an order-backed production strategy.

Moderate Credit Metrics: The total debt primarily comprised a term loan and fund-based facilities. During FY18, RTL's external borrowings increased to INR534.34 million (FY17: INR219.37 million) due to a capex of INR420 million for setting up the additional capacity and increased utilisation of the fund-based limit to support its growing scale of operations. Consequently, net leverage deteriorated to 3.05x in FY18 (FY17: 1.59x) and interest coverage to 3.33x (6.97x).

Modest Working Capital Cycle & Liquidity: RTL's working capital cycle deteriorated to 78 days in FY18 (FY17: 25 days), mainly on account of high inventory during the year end. The inventory days increased owing to a large work order pending during 4Q resulting in increased work-in-progress inventory of 121 million in FY18 (FY17: INR14 million). The company's use of the working capital limits was around 87% on an average during the 12 months ended June 2018.

RATING SENSITIVITIES

Negative: A decline in the EBITDA margins leading to deterioration in the interest coverage ratio below 2.5x on a sustained basis could lead to a negative rating action.

Positive: Significant revenue growth along with the improved credit metrics could lead to a positive rating action.

COMPANY PROFILE

RTL manufactures beach and bath towels for brands such as TK Maxx, Metro Sears, BigW, Loblaws, CasaFina, Duex Fils, Hardcastle & Leeds UK, Jaican Jax, Notting Hill and Pashmina Cotton. The company also supplies bath robes and bath mats which are manufactured on job-work basis.

FINANCIAL SUMMARY

Particulars	FY18	FY17
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Revenue (INR million)	1,481.63	1,117.90
EBITDA (INR million)	147.82	93.96
EBITDA margin (%)	9.98	8.41
Total debt (INR billion)	534.34	219.37
Gross interest coverage (x)	3.22	6.97
Net leverage (x)	3.05	1.59
Source: RTL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	21 June 2017	24 June 2016	12 June 2015
Issuer rating	Long term	-	IND BBB-/Stable	IND BBB-/Stable	IND BB+/Stable	IND BB+/Stable
Long-term loan	Long term	INR260.0	IND BBB-/Stable	IND BBB-/Stable	IND BB+/Stable	IND BB+/Stable
Fund-based limit	Long term/Short term	INR300.0	IND BBB-/Stable/IND A3	IND BBB-/Stable/IND A3	IND BB+/Stable/IND A4+	IND BB+/Stable/IND A4+
Non-fund-based limit	Long term/Short term	INR12.0	IND BBB-/Stable/IND A3	IND BBB-/Stable/IND A3	IND BB+/Stable/IND A4+	IND BB+/Stable/IND A4+

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

[Corporate Rating Methodology](#)

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