Rating Rationale

May 03, 2021 | Mumbai

Riba Textiles Limited

Rating outlook revised to 'Negative'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.76.5 Crore**
Long Term Rating	**CRISIL BBB/Negative (Outlook revised from 'Stable' and rating reaffirmed)**
Short Term Rating	**CRISIL A3+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its rating outlook on the long-term bank facilities of Riba Textiles Ltd (RTL) to '**Negative**' from 'Stable' and reaffirmed the rating at **'CRISIL BBB'**; the rating on the short-term facility has been reaffirmed at 'CRISIL A3+'.

The outlook revision reflects CRISIL's belief that RTL's business risk profile will weaken over the medium term. Revenue stagnated to Rs 124.21 crore in 9 months ending December 2020 for fiscal 2021 from Rs 121.16 crore for the same period in fiscal 2020, driven by lower demand on account of Covid impact. Operating margin was 9.36% in fiscal 2020, and is estimated at 8.34% in fiscal 2021 and might remain impacted on account of increased yarn prices and logistics costs. As a result, cushion between net cash accrual and repayment obligation is expected to remain low. Cash accrual is expected at Rs 9-12 crore over the medium term against repayment obligations of 5.25-9.08 crore, leading to lower cushion. The operating margin is likely to moderate over the medium term and may further weaken the debt protection metrics.

The ratings continue to reflect RTL's established market position in the textile industry, comfortable capital structure of the company and its efficient working capital management. These strengths are partially offset by susceptibility to volatility in raw material prices and intense competition and significant debt funded capex.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position:** RTL's moderate scale of operations provides operating flexibility in an intensely competitive industry. The promoters' experience of more than two decades, their strong understanding of market dynamics, and healthy relations with customers and suppliers should continue to support the business.

- **Comfortable capital structure**: Because of low reliance on external funds, the total outside liabilities to tangible networth was moderate, estimated at 0.95 time as on March 31, 2021.

- **Efficient working capital management:** Gross current assets were moderate at an estimated 94 days as on March 31, 2021, driven by receivables and inventory of 38 days and 48 days, respectively. Payables were 32 days as on March 31, 2021. The working capital cycle will be efficiently managed over the medium term.

Weaknesses:

- **Susceptibility to volatility in raw material prices:** Prices of polymers, key raw material, are volatile. As raw material cost comprises 60% of the operating income, the company is susceptible to increase in input prices.

- **Exposure to intense competition:** Most of the synthetic fabric produced in the country comes from the decentralised power loom and hosiery industry. Intense competition constrains scalability and pricing power, as reflected in revenue of Rs 177.3 crore in fiscal 2020. Moreover, revenue are estimated to remain stable in fiscal 2021 on account of the Covid-19 pandemic and slowdown in demand from export.

- **Significant debt funded capex:** Company has done capex of around Rs 13 crore in fiscal 2021 for addition of 8 new looms, the same has been funded through term debt of around Rs 7.5 crore. Further company has planned to do a capex of around Rs 44 crore for addition of 16 new looms and construction of building in fiscal 2022. The capex is expected to be funded through a term loan of Rs 31 crore and the remaining through internal cash accrual. The large amount of debt funded capex leading to higher repayment obligation and expected slowdown in demand going ahead, could lead to lower than anticipated cash accruals. Hence ramp-up in sales will remain critical to achieve growth in revenue and profitability, and hence, will be a monitorable.

Liquidity: Adequate
Net cash accrual, expected at Rs 12.3-17.3 crore per annum in fiscals 2022 and 2023, will cover yearly debt obligation of Rs 9.08-15.79 crore. Bank limit utilisation averaged 60% over the 12 months through February 2021. The promoters are expected to continue to provide timely financial support

Outlook: Negative
CRISIL Ratings believes the revenue and operating margin of RTL will remain under pressure over the medium term because of the weakened demand scenario.

Rating Sensitivity factors
Upward factors
- Increase in operating income by more than 25% and in operating margin by 200 basis points
- Higher net cash accrual leading to improved cushion between repayments

Downward factors
- Decline in operating income by more than 30%
- Fall in profitability due to delay in stabilisation of capex
- Large, debt-funded capital expenditure weakening the financial risk profile

About the Company
Incorporated in 1989, RTL manufactures and exports terry towels. It offers spa, yarn dyed, plain dyed, printed border and embroidered towels as well as bath robes. The manufacturing facility is in Sonipat, Haryana, with capacity of 7,000 tonne per annum. The products are sold under the brands Pashima Cotton, CASA FINA, Duex Fils, Jamaican Jax, Notting Hill, and Hard Castle and Leeds UK.

For the nine months ended December 31, 2020, RTL reported revenue of Rs 124.21 crore and profit after tax (PAT) of Rs 5.54 crore, compared with Rs 121.16 crore and Rs 6.32 crore, respectively, for the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	177.30	196.18
PAT	Rs crore	6.74	8.21
PAT margin	%	3.8	4.19
Adjusted debt / adjusted networth	Times	0.70	0.74
Interest coverage	Times	3.99	3.67

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Export packing credit	NA	NA	NA	35.00	NA	CRISIL BBB/Negative
NA	Term loan	NA	NA	Sep-27	37.35	NA	CRISIL BBB/Negative
NA	Proposed long-term bank loan facility	NA	NA	NA	0.65	NA	CRISIL BBB/Negative
NA	Foreign exchange forward	NA	NA	NA	3.5	NA	CRISIL A3+

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	76.5	CRISIL A3+ / CRISIL BBB/Negative		--	22-05-20	CRISIL A3+ / CRISIL BBB/Stable	28-06-19	CRISIL BBB/Stable		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Foreign Exchange Forward	3.5	CRISIL A3+	Foreign Exchange Forward	2.5	CRISIL A3+
Proposed Long Term Bank Loan Facility	0.65	CRISIL BBB/Negative	Proposed Long Term Bank Loan Facility	0.65	CRISIL BBB/Stable
Term Loan	37.35	CRISIL BBB/Negative	Term Loan	33.35	CRISIL BBB/Stable
Export Packing Credit	35	CRISIL BBB/Negative	Export Packing Credit	40	CRISIL BBB/Stable
Total	76.5	-	Total	76.5	-

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition

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