

Rating Rationale

April 25, 2022 | Mumbai

Riba Textiles Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.76.5 Crore
Long Term Rating	CRISIL BBB/Negative (Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB/Negative/CRISIL A3+' ratings on the bank facilities of Riba Textiles Limited (RTL).

The ratings continue to reflect the established presence of RTL 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 exposure to geographical concentration in revenue.

Key Rating Drivers & Detailed Description

Strengths

Established market position

The promoters have experience of over two and a half decades in the textiles industry; their strong understanding of the market dynamics and healthy relationships with customers and suppliers have helped the company attain sales of Rs 157.6 crore over the nine months through fiscal 2022 against Rs 124.2 crore in the corresponding period of the previous fiscal. Sales will likely increase to Rs 215 crore in fiscal 2022 from Rs 190 crore in fiscal 2021 and are expected at over Rs 250 crore on account of increased volume, as the company has added some looms that shall support business growth.

Comfortable capital structure

Networth and gearing are estimated at around Rs 74.00 crore and below 0.80 time, respectively, as on March 31, 2022 (against Rs 70.00 crore and 0.80 time, respectively, a year earlier). Debt protection metrics are expected to be moderate on account of low profitability; interest coverage and net cash accrual to total debt ratios are estimated at 3.7 times and 0.18 time, respectively, in fiscal 2022 (against 4.2 times and 0.18 time, respectively, in fiscal 2021).

Although the company has not planned any major, debt-funded capital expenditure (capex) over the medium term, any such capex that weakens the capital structure and has significant repayment will remain a key rating sensitivity factor.

Efficient working capital management

Gross current assets (GCAs) are estimated at a moderate 134 days as on March 31, 2022, driven by receivables and inventory of 84 and 38 days, respectively. The company maintains inventory of 30-45 days only in order to mitigate the risk of volatility in raw material prices. The working capital cycle will remain efficiently managed over the medium term, with GCAs at 110-115 days.

Weaknesses

Susceptibility to volatility in raw material prices

RTL is exposed to volatility in the prices of the raw material, cotton yarn. As raw material cost comprises more than 60% of the operating income, the company remains susceptible to increase in input prices, which has put pressure on operating profitability. The earnings before interest, tax, depreciation and amortisation (EBITDA) margin moderated to 8.1% in fiscal 2021 from 9.4% in fiscal 2020, which is expected to moderate by another 100 basis points and is estimated at around 7% in fiscal 2022. Improvement in profitability will remain a key monitorable over the medium term.

Geographical concentration in revenue

Though the clientele is fairly diversified, with no single customer contributing to more than 7% of the total business, there is geographical concentration, with 75% of the revenue generated only from the top five countries. Any disruption in a particular economy can significantly impact the business risk profile of the company.

Liquidity: Adequate

Cash accrual, expected at Rs 13-15 crore per annum, will sufficiently cover yearly debt obligation of Rs 7-10 crore in fiscals 2023 and 2024; the surplus cash will aid financial flexibility. However, cash accrual was modest in fiscal 2022 because of low profitability and will be insufficient vis-à-vis debt obligation of around Rs 12 crore; the cash mismatch will be met through

debt. Bank limit was utilised at around 78% on average over the 12 months through February 2022. Cash and bank balance stood at Rs 1.25 crore as on September 30, 2021.

Outlook: Negative

The operating margin of RTL will remain under pressure over the medium term because of increasing raw material prices.

Rating Sensitivity Factors

Upward factors

- Increase in operating profitability to over 9%
- Improvement in liquidity, indicated by increase in net cash accrual, providing comfortable cushion for debt obligation

Downward factors

- Decline in revenue and operating profitability by more than 50-100 basis points leading to fall in net cash accrual
- Any large, debt-funded capex weakening the capital structure

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 8,000 tonne per annum. The products are sold under the Pashima Cotton, CASA FINA, Duex Fils, Jamaican Jax, Notting Hill, Hard Castle and Leeds UK brands.

Key financial indicators

As on/for the period ended March 31	Unit	9M'FY22	2021	2020
Operating income	Rs crore	157.6	189.9	177.3
Reported profit after tax (PAT)	Rs crore	3.3	5.9	6.7
EBITDA margin	%	6.7%	8.1%	9.4%
PAT margin	%	2.1%	3.1%	3.8%
Adjusted debt/Adjusted networkth	Times	-	0.84	0.70
Interest coverage	Times	3.2	4.2	4.0

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	40	NA	CRISIL BBB/Negative
NA	Foreign exchange forward	NA	NA	NA	3	NA	CRISIL A3+
NA	Long-term loan	NA	NA	Dec-26	29	NA	CRISIL BBB/Negative
NA	Proposed long-term bank loan facility	NA	NA	NA	4.5	NA	CRISIL BBB/Negative

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	76.5	CRISIL A3+ / CRISIL BBB/Negative		--	03-05-21	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 Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Export Packing Credit	40	State Bank of India	CRISIL BBB/Negative
Foreign Exchange Forward	3	State Bank of India	CRISIL A3+

Long Term Loan	29	State Bank of India	CRISIL BBB/Negative
Proposed Long Term Bank Loan Facility	4.5	Not Applicable	CRISIL BBB/Negative

This Annexure has been updated on 08-Feb-23 in line with the lender-wise facility details as on 17-Jan-23 received from the rated entity.

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating Criteria for Cotton Textile Industry](#)

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