January 20, 2017

Rajapalayam Mills Limited

Instruments*	Amount (in crore)	Rating Action
Long term: Term loans	153.96	Upgraded from [ICRA]BBB+(Stable) to [ICRA]A- (Stable)
Long term: Fund based limits	139.00	Upgraded from [ICRA]BBB+ (Stable) to [ICRA]A- (Stable)
Long term: Non fund based sub-limits	(3.00)	Upgraded from [ICRA]BBB+ (Stable) to [ICRA]A- (Stable)
Short term: Fund based limits	96.00	Upgraded from [ICRA]A2 to [ICRA]A2+
Short term: Fund based sub-limits	(30.00)	Upgraded from [ICRA]A2 to [ICRA]A2+
Short term: Non fund based limits	8.50	Upgraded from [ICRA]A2 to [ICRA]A2+
Short term: Non fund based sub-limits	(37.00)	Upgraded from [ICRA]A2 to [ICRA]A2+
Total	**397.46**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long term rating from [ICRA]BBB+ (pronounced as ICRA triple B plus)[1] to [ICRA]A- (pronounced as ICRA A minus) for the Rs. 153.96 crore[2] term loans, Rs. 139.00 crore fund based limits and Rs. 3.00 crore non-fund based sub-limits of Rajapalayam Mills Limited (RML). ICRA has also upgraded the short term rating from [ICRA]A2 (pronounced as ICRA A two) to [ICRA]A2+ (pronounced as ICRA A two plus) for the Rs. 96.00 crore fund based bank limits, Rs. 30.00 crore short term fund-based sub-limits, Rs. 8.50 crore non fund based bank limits, and Rs. 37.00 crore non-fund based sub-limits of RML. The outlook on the long term rating is 'Stable'.

Detailed Rationale

The upgrade of the ratings reflect the improvement in the performance of the company which is reflected in the EBITDA margins which are at 22.50%(H1FY17) against 15.60%(H1FY16) during FY2017, supported by the product mix concentration finer counts of yarn and the improvement in performance of windmills (higher power evacuation); this has also aided the company in reducing power costs thereby helping the margins. Despite the increase in cotton prices in the past 9 months and the muted uplift in yarn prices, operational efficiencies have supported margin expansion. This healthy performance in the time where the whole textile industry is facing problems like higher cotton prices, decreasing demand for exports to China etc. shows the management experience. The ratings also derives comfort from the market value of quoted investments which stands at Rs.2,208 crore (as on 12th Jan,2017) as against a book value of Rs. 50.21 crores; the company holds 13.8% in The Ramco Cements, 9.1% in Ramco Industries and 2.4% in Ramco Systems.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths
- Significant experience and established presence of the promoters in spinning industry
- Higher concentration on production of finer counts mitigates risks related to price volatility and yields higher realizations
- Established relationship with key customers provides steady order volumes
- Existence of value-added facilities provides relatively higher realization/ margin
- The market value of the quoted investments gives adequate buffer for the company.
- Financial flexibility enjoyed by being part of the Ramco Group

Credit Weakness
- Financial profile characterized by a leveraged capital structure due to aggressive debt-funded capital expenditure in the past; sizable repayments over the next two years
- Volatility in margins owing to fluctuation in cotton / yarn prices, government policy actions and trade/non-trade barriers
- Intense competition in a fragmented industry structure, amidst low product differentiation, restricts pricing flexibility of spinner
- Refinancing requirements in weaker entities of the group which could require support

Detailed description of key rating drivers highlighted above:

The company has benefitted from the improved performance in the textile division which is due to concentration of its production on finer counts yarn. Although the domestic spinning industry has been impacted by the higher cost of cotton procurement in the current cotton year, strategic sourcing through imports has enabled the company to manage its inventory costs in FY2017. This, along with the improved performance from the windmills division had a ripple effect on the EBIDTA margins which stood at 22.5% (H1 FY17) against 15.60% (H1 FY16).

The liquidity position has also improved on the back of marginal decrease in debtor realization as well as partial repayment of term loans. Though the company has sizable repayments of Rs.52.1 crore during FY17 and 43.8 crores during FY18 respectively, the company's cash accruals over the next two years are expected to be sufficient to comfortably meet the requirements. Thus in the near to medium term the company is expected to maintain the capital structure.

The company also derives a significant benefit by being part of the Ramco Group of companies and from the investments (valued at Rs. 2,208.8 crore as on 12th January 2017). The company also derives significant benefit from being part of the Ramco Group of companies and from the market value of investments (valued at Rs. 2,208.8 crore as on January 12, 2017). While the company is expected to support its group entities in the textiles vertical, support is expected to be limited to Rs. 250 crore (as against the current O/s debt of Rs. 155 crore (March 31, 2016) backed by corporate guarantees of Rs. 471.1 crore).

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of RML along with its group company which are as follows:-

- The Ramaraju Surgical Cotton Mills Limited
- Sri Vishnu Shankar Mill Limited
- Sandhya Spinning Mill Limited
- Thanjavur Spinning Mills Limited
- Sri Harini Textiles
- Rajapalayam Textiles Limited

Since the group operates in the same line of business, have operational linkages and share a common management.

Links to applicable Criteria change to links
Corporate Credit Rating - A Note on Methodology
Rating Methodology for Indian Textiles Industry - Spinning

About the Company:
RML, incorporated in 1936, is primarily engaged in spinning of cotton yarn. With manufacturing facilities in Tamil Nadu and Andhra Pradesh, RML's scale of operations is moderate with an installed capacity of 136,688 spindles and 4,392 rotors. RML produces counts ranging from 4s to 300s (single /double yarn) and also has value-added facilities like compact ring spinning, doubling / twisting, gassing, and slub yarn equipment. RML forms part of the Ramco Group, with other big entities in the group being The Ramco Cements Limited and Ramco Industries Limited. RML has wind turbine generators (with installed capacity of 35.15 MW) in Tamil Nadu to control power costs.

The company reported an operating income of Rs. 200.3 crore and net profit of Rs. 20.9 crore in H1 FY2017 as against the operating income of Rs. 188.3 crore and net profit of Rs. 11.5 crore in H1 FY2016

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
		Type	Rated amount (Rs. crore)	Month-year & Rating				
				Jan 2017	Apr 2015	Apr 2014	Mar 2014	Dec 2013
1	Term loans	Long term	153.96	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund based - Cash credit	Long term	139.00	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based (sub-limits)	Long term	(3.00)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
4	Fund based	Short term	96.00	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
5	Fund based (sub-limits)	Short term	(30.00)	[ICRA]A2+	[ICRA]A2	-	-	-
6	Non-fund based	Short term	8.50	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
7	Non-fund based (sub-limits)	Short term	(37.00)	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance ^	Coupon rate ^	Maturity Date ^	Size of the issue	Rating assigned, along with Rating Outlook
Term loans	Since FY2008	-	Up to FY2021	153.96	[ICRA]A- (Stable)
Fund based - Cash credit	-	-	-	139.00	[ICRA]A- (Stable)
Non-fund based (sub-limits)	-	-	-	(3.00)	[ICRA]A- (Stable)
Fund based	-	-	-	96.00	[ICRA]A2+
Fund based (sub-limits)	-	-	-	(30.00)	[ICRA]A2+
Non-fund based	-	-	-	8.50	[ICRA]A2+
Non-fund based (sub-limits)	-	-	-	(37.00)	[ICRA]A2+

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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