ICRA

August 11, 2017

Rajapalayam Mills Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long term: Term loans	35.87 (revised from 69.97)	[ICRA]A- (Stable); reaffirmed
Long term: Fund based limits	136.00 (revised from 139.00)	[ICRA]A- (Stable); reaffirmed
Long term: Non fund based sub-limits	(3.00)	[ICRA]A- (Stable); reaffirmed
Short term: Fund based limits	128 (revised from 96)	[ICRA]A2+/ reaffirmed
Short term: Fund based sub-limits	(30.00)	[ICRA]A2+/reaffirmed
Short term: Non fund based limits	3.50 (revised from 8.50)	[ICRA]A2+/reaffirmed
Short term: Non fund based sub-limits	(37.00)	[ICRA]A2+/reaffirmed
Total	**303.37**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 35.87 crore[1] term loans, Rs. 136.00 crore fund based limits, Rs. 3.00 crore non fund based sub-limit facilities of Rajapalayam Mills Limited (RML). ICRA has also reaffirmed the short term rating of [ICRA]A2+ (pronounced ICRA A two plus) for the Rs. 128.00 crore fund based facilities, Rs. 30.00 crore fund based sub-limit facilities, Rs. 3.50 crore non fund based facilities and Rs. 37.00 crore non fund based sub-limit facilities of RML. The outlook on the long term rating is Stable.

Rationale

ICRA has taken a consolidated view of the business and financial profiles of the spinning entities in the Ramco Group (viz., Rajapalayam Mills Limited (RML), The Ramaraju Surgical Cotton Mills Limited, Sri Vishnu Shankar Spinning Mill Limited, Sandhya Spinning Mill Limited, Thanjavur Spinning Mill Limited, Sri Harini Textiles Limited and Rajapalayam Textile Limited – “the Group”) for the purpose of these ratings, due to strong business and financial inter-linkages, common management control.

The upgrade of rating favourably factor in the extensive experience of the promoters spanning over 70 years in the textiles spinning industry, and the established customer and supplier base of the company. The rating upgrade also factors in the improvement in outlook for the spinning industry based on the expectation of higher cotton output and recovery of yarn demand. The ratings also factor the group’s diversified presence across the low, medium and finer count ranges which provide relatively higher margins in a fragmented industry with intense competition.

[1] *100 lakh = 1 crore = 10 million*

The ratings are constrained by the group's highly geared capital structure due to aggressive debt-funded capital expenditure in the past. Despite the weak capital structure, the ratings derives significant comfort from RML's market value of investments of Rs.2,504 crore (as on 3rd August, 2017) coming from holding equity shares in other listed companies in the group namely The Ramco Cements Limited (13.8%), Ramco Systems Limited (2.4%), Ramco Industries Limited(9.1%).

Key rating drivers

Credit strengths

- **Financial flexibility enjoyed by being part of the Ramco Group** – Being part of the Ramco Group provides adequate financial flexibility to the weaker entities in the group by having access to debt at lower rate of interest. Also, the stronger entities in the group provide financial support to tide away any temporary financial blockages in the weaker group entities.

- **Significant experience and established presence of the promoters in spinning industry aiding strong customer base and steady order volumes** – The spinning division of the Ramco group was established in 1938 and is currently operating with a capacity of 4.2 Lakh spindles. The promoters experience has aided the group in establishing a strong customer base of mainly export customers in Japan such as M/s. Mitsubishi Corporation, M/s. Doko Spinning Co. Ltd etc. The group currently derives 60% of its revenues from exports

- **Existence of value-added facilities provides relatively higher realisation / margin–** The group's presence in the value added segment with a capacity of 14,320 rotors and 45,174 TFO spindles supports its margin expansion capabilities. The operating margins of the group improved from 15.9% (FY2016) to 17.6% (FY2017).

- **Market value of investments providing adequate comfort to the capital structure-** The group's capital structure was highly leveraged with gearing of 3.2 times (as on 3March 31, 2017) on account of high debt funded capital expenditure incurred in the past. However, the market value buffer of investments provides substantial comfort.

- **Improvement in margins despite tepid domestic demand**: Despite weak yarn demand during FY2017, the group's PAT margins witnessed a 220 bps increase from 3.1 %(FY2016) to 5.3 %(FY2017). This was aided by improvement in electricity generation from windmills; the groups 85.05 MW windmill capacities have generated 60% higher units supported by improved grid availability. Going forward, the margins are expected to improve further aided by recovery of demand for yarn and softening of cotton prices during FY2018.

Credit weaknesses

- **Volatility in margins owing to fluctuation in cotton / yarn prices-** Usually yarn prices generally mirrors the trends in cotton prices with a lag. This lag in the adjustment of prices creates volatility in the group's operating margins. Thus any adverse volatility in the cotton prices will have an impact on the group's margins.

- **Intense competition in a fragmented industry structure, amidst low product differentiation, restricts pricing flexibility of spinners** - The group is constrained by the low pricing flexibility of the spinners owing to low product differentiation and intense competition. This is attributable to the highly fragmented nature of the spinning industry.

- **Stretched coverage metrics owing to high debt levels**- The group incurred significant debt funded capital expenditure in the past and consequently resulted in high debt repayment obligations. This resulted in a high Total Debt/OPBITDA of 5.9 times as on March 31, 2017.

Analytical approach: ICRA has taken a consolidated view of the business and financial profiles of the spinning entities in the Ramco Group (viz., Rajapalayam Mills Limited (RML), The Ramaraju Surgical Cotton Mills Limited, Sri Vishnu Shankar Spinning Mill Limited, Sandhya Spinning Mill Limited, Thanjavur Spinning Mill Limited, Sri Harini Textiles Limited and Rajapalayam Textile Limited – "the Group").

Links to applicable criteria:
Corporate Credit Rating 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 137,552 spindles and 4,616 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.

In FY2017, the company reported a net profit of Rs. 35.9 crore on an operating income of Rs. 407.1 crore, as compared to a net profit of Rs. 24.9 crore on an operating income of Rs. 393.4 crore in the previous year.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	393.4	407.1
PAT (Rs. crore)	24.9	35.9
OPBDIT/ OI (%)	14.6%	18.4%
RoCE (%)	10.5%	11.3%
Total Debt/ TNW (times)	1.2	1.0
Total Debt/ OPBDIT (times)	5.0	3.8
Interest coverage (times)	2.2	3.2
NWC/ OI (%)	35%	42%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating		
				Aug' 2017	Dec' 2016	Mar' 2015	Apr'2014
1	Term loans	Long term	35.87	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Fund based - Cash credit	Long term	136.00	[ICRA]A- (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)
4	Fund based	Short term	128.00	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+
5	Fund based (sub-limits)	Short term	(30.00)	[ICRA]A2+	[ICRA]A2	-	-
6	Non-fund based	Short term	3.50	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A3+
7	Non-fund based (sub-limits)	Short term	(37.00)	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[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
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE296E01026	Term loans	-	9.92%	April 2020	35.87	[ICRA]A- (Stable)
INE296E01026	Fund based - Cash credit	-	-	-	136.00	[ICRA]A- (Stable)
INE296E01026	Non-fund based (sub-limits)	-	-	-	(3.00)	[ICRA]A- (Stable)
INE296E01026	Fund based	-	-	-	128.00	[ICRA]A2+
INE296E01026	Fund based (sub-limits)	-	-	-	(30.00)	[ICRA]A2+
INE296E01026	Non-fund based	-	-	-	3.50	[ICRA]A2+
INE296E01026	Non-fund based (sub-limits)	-	-	-	(37.00)	[ICRA]A2+

Source: RML

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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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