March 11, 2024

Rajkrupa Textiles India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based–Working Capital	48.36	25.00	[ICRA]BBB+ (Stable); reaffirmed
Short Term-Non-Fund Based Limits–LC/BG^	(12.00)	(23.50)	[ICRA]A2; reaffirmed
Total	**48.36**	**25.00**	

**Instrument details are provided in Annexure-I*

^sub limit of the overall fund-based working capital limit

Rationale

The ratings reaffirmation of Rajkrupa Textiles India Private Limited (RTIPL) considers the company's performance, which is in line with ICRA's estimated levels and expectation of a stable performance, going forward. The ratings further draw comfort from the significant experience of the promoters in the textile industry along with the established and reputed clientele of RTIPL. The ratings also positively factor in the above-average financial risk profile of the company, characterised by a comfortable operating margin and capital structure, leading to strong debt coverage metrics, as reflected by an interest coverage of ~16.7 times and Total Debt to OPBIDTA of ~0.7 times in FY2023.

The ratings, however, consider the vulnerability of the firm's profitability to fluctuations in prices of key raw materials (yarn/ grey fabric), which are largely linked to cotton prices, and the intensely competitive textile industry, which limits the pricing flexibility to an extent. The ratings are further constrained by the high geographical and customer concentration risks as ~81% of its revenues was derived from two countries (Sri Lanka and the UAE) and ~73% of the overall revenue was derived from the top five customers in FY2023. The company also remains susceptible to the changes in the export incentive structure and exposure of its profitability to fluctuations in the foreign currency exchange rate, as the major portion of total revenue comes from the export market. However, the same is partially mitigated through forward contracts.

The Stable outlook on the long-term rating reflects ICRA's expectation that RTIPL is likely to sustain its operating metrics even as the revenue growth may moderate. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in textile industry – The promoters of the company have been involved in the textile business for many decades. This coupled with its strongly integrated operations across the textile value chain, right from grey fabric manufacturing to garment manufacturing, supports the business prospects.

Reputed and established customer profile with track record of repeat business – The company manufactures and sells cotton fabrics and garments to reputed and established domestic and international players. Over the years, it has established a strong relationship with its customers, which includes RNA Resources Group Ltd. (Landmark Group) and Hela Clothing Pvt. Ltd. This coupled with strong design capabilities and superior quality facilitate continuous order flow.

Financial risk profile characterised by comfortable operating margin and capital structure, leading to strong debt coverage metrics – The company's revenue witnessed a steady growth over the years, supported by continuous capacity additions in the past and healthy off-take. The operating income of RTIPL grew by ~12% to ~Rs. 526.8 crore in FY2023 from Rs. 467.0 crore in FY2022. The operating margin has remained comfortable in the range of 9-9.5% over the last three fiscals. The return on capital employed (ROCE) remained comfortable over the past years and stood at ~44.2% in FY2023. The capital structure of the company remained comfortable, as reflected by a gearing of ~0.4 times as on March 31, 2023, due to its low dependence on bank borrowings. The company's dependence on bank borrowings in the current fiscal had remained low and the total debt of Rs. 33.3 crore as on March 31, 2023, represented unsecured loans taken from directors. These loans worth Rs. 31.6 crore had been repaid till December 2023 in the current fiscal. Its TOL/TNW has improved to 1.2 times as on March 31, 2023, against 2.1 times as on March 31, 2022, and is expected to further improve with reduction in borrowings and with no major debt-funded capex being proposed to be incurred by the company in the near-to-medium term. Debt coverage indicators remained healthy, as reflected by an interest coverage of ~16.7 times and TD/OPBITA of ~0.7 times in FY2023.

Credit challenges

Exposed to high customer concentration risk – The customer concentration risk is high with the top five customers accounting for 65-75% of the total sales in the past three fiscals. However, reputed, and established customer profile mitigate the counterparty credit risk to a significant extent.

Intense competition restricts pricing flexibility – The Indian textile industry is highly fragmented with presence of numerous organised and unorganised players, which restricts the company's pricing flexibility.

Profitability susceptible to volatility in raw material prices and foreign currency exchange rates – With limited control over the prices of its key inputs (cotton yarn / cotton grey fabric) coupled with raw material stocking requirements, the company's profitability remains exposed to volatility in raw material prices. Moreover, the company derives the major portion of its revenue from export sales, denominated in the US dollar, which exposes its profitability to fluctuation in foreign currency exchange rate though the same is partially mitigated through forward contracts entered by the company.

Liquidity position: Adequate

Cash flow from operations, which remained positive over the past few years, was supported by the low working capital intensity of operations. The liquidity position of the company remains adequate with free cash/liquid investments of ~Rs. 3.1 crore as on December 31, 2023 (post repayment of loan taken from the promoter's worth ~Rs. 31.6 crore in the current fiscal) and availability of sufficient buffer in the form of undrawn working capital limits. The company does not have any major debt-funded capex planned in the near-to-medium term, and thus its liquidity is expected to remain adequate.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of any significant increase in the revenues and profitability of the company, strengthening its net worth, along with expansion in its geographical presence and customer base.

Negative factors – Pressure on the ratings could arise if there is any significant decline in revenues or any material deterioration in the margins. Any stretch in the working capital cycle or higher-than-anticipated capital expenditure, impacting the liquidity, could also lead to ratings downgrade. Specific credit metrics that could lead to ratings downgrade include TOL/TNW above 1.7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Textiles (Apparels) Rating Methodology – Textiles (Fabric making)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial risk profile of the company.

About the company

Rajkrupa Textiles India Private Limited was incorporated on August 2, 2021. The business of Raj Exports, incorporated in 1998, was transferred to RTIPL on August 2, 2021. RTIPL is managed by Mr. Yogesh Shah, Mr. Shirish Shah, and Mr. Niraj Shah, who have long experience in the textile business. The product portfolio of the company includes knitted fabric, t-shirts, socks, hosiery products such as undergarments etc. made from cotton knitted fabrics. The company's manufacturing facilities are located in Ahmedabad (Gujarat) and Tirupur (Tamil Nadu). At present, its knitting (grey fabric manufacturing capacity), processing (dyeing and printing) and garment manufacturing capacities stand at ~500 MT/ month, ~800 MT/month and ~8 lakh units/month, respectively.

Key financial indicators (audited)

RTIPL Standalone	FY2022	FY2023	9MFY2024*
Operating income	467.0	526.8	369.2
PAT	30.9	27.0	23.4
OPBDIT/OI	9.2%	9.2%	9.8%
PAT/OI	6.6%	5.1%	6.3%
Total outside liabilities/Tangible net worth (times)	2.1	1.2	0.6
Total debt/OPBDIT (times)	1.0	0.7	0.0
Interest coverage (times)	18.4	16.7	42.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CRISIL	CRISIL B(Stable)/CRISIL A4; ISSUER NOT COOPERATING	February 14, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023				Date & rating in FY2022	Date & rating in FY2021
					March 11, 2024	Jan 03, 2023	Nov 16, 2022	Jun 27, 2022		-	Mar 10, 2021
1	Fund Based-Working Capital	Long term	25.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB (Stable); ISSUER NOT COOPERATING		-	[ICRA]BBB (Stable)
2	Non-Fund Based Limits-LC/BG^	Short term	(23.50)	-	[ICRA]A2	[ICRA]A2	-	-		-	-
3	Fund-based – Term loan	Long term	-	-	-	-	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB (Stable); ISSUER NOT COOPERATING		-	[ICRA]BBB (Stable)
4	Working Capital (Proposed)	Long term	-	-	-	-	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB (Stable); ISSUER NOT COOPERATING		-	[ICRA]BBB (Stable)
5	Fund Based	Long term	-	-	-	-	-	-		-	-
6	Non-Fund Based	Short term	-	-	-	-	-	-		-	-

^ sub limit of the overall fund-based working capital limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based –Working Capital	Simple
Short Term-Non-Fund Based Limits-LC/BG	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**CC[1]/EPC/PCFC**	NA	NA	NA	25.00	[ICRA]BBB+ (Stable)
NA	**Letter of Credit/ Bank Guarantee ***	NA	NA	NA	(23.50)	[ICRA]A2

Source: Company

1 - Cash credit is the sublimit of the overall fund based working capital limit to the extent of Rs. 15 crore;

** - sub limit of the overall fund-based working capital limits*

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

G S Ramakrishnan
+91 44 4596 4300
g.ramakrishnan@icraindia.com

Trusha Mahendra Patil
+91 94 2350 3574
trusha.patil@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches