# Riba Textiles Limited

July 09, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 25.00 | CARE BBB; Stable | Assigned |
| Long Term / Short Term Bank Facilities | 50.00 | CARE BBB; Stable / CARE A3+ | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The ratings assigned to the bank facilities of Riba Textiles Limited (RTL) derive strength from the stable operational performance of the company marked by coupled with its moderate working capital requirements. The ratings also derive strength from the long-standing experience of its promoters which is reflected in its diversified and reputed client base. The ratings further take comfort from average financial risk profile of the company marked by comfortable capital structure and moderate debt coverage indicators along with an adequate liquidity position. The ratings strengths are however offset by the presence of the company in a highly competitive industry, thereby, limiting its bargaining power. The ratings are further constrained by the susceptibility of margins to foreign exchange fluctuations risk and the geographical concentration risk faced by the company.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Increase in the scale of operations beyond Rs. 300 crores with ROCE of around 13% on a sustained basis.
- Improvement in the capital structure of the company marked by Total Debt/ PBILDT below 3.00x on a sustained basis

**Negative factors**

- Any significant unplanned capex deteriorating the capital structure of the company marked by an overall gearing of above 1.00x
- Deterioration in the working capital cycle of the company due to increase in collection period beyond 70 days on sustained basis

**Analytical approach:** Standalone

**Outlook:** Stable

CARE Ratings believes that the company shall continue to maintain its stable operational performance and expected to benefit from the long-standing experience of its promoters along with its reputed clientele.

## Detailed description of the key rating drivers:

### Key strengths

**Stable operational performance**

The total operating income of the company remained stable and stood at Rs 246.89 crores for FY24 growing at a CAGR of approximately 7% for the last five financial years. The slight growth in the scale of operations is primarily driven by addition of new customers in the United States market along with increased exposure to TJ Maxx (US based client) along with further stabilisation in the Latin American market. The company has a total of 85 looms out of which 48 are new air jet looms which give an efficiency of 85-90% but the older rapier looms are no longer as efficient and give an average efficiency of 50%. Hence the average capacity utilisation stands at 75%. The company expects the scale of operations to improve as the new air jet looms would be fully operational from FY25 onwards.

The PBILDT margin of the company has remained in the range of 6-9% for the last five financial years. Further, The PBILDT and PAT margins of the company improved marginally from 7.65% and 3.05% respectively in FY23 to 8.00% and 3.21% in FY24 respectively. Profitability margins are further expected to improve slightly because of the increased production capability that would be functional from FY25 along with similar cost structure. However, the company expects the PBILDT margin to remain in the range of 6-8% going forward.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

**Established client base albeit geographical concentration risk**

RTL caters to various leading and established brands across the globe. The company has been engaged primarily in the export of its products to mainly the United States and Latin America. RTL caters to leading international brands and retail chains some of whom have been associated with the company for almost a decade. The top ten clients of the company contributed approximately 30-35% of the total operating income, thereby negating any client concentration risk which is also supported by repeat orders and long relationship with the clients. However, the company faces geographical concentration risk since the top 10 countries of export account for 60-65% of the total operating income of the company. Out of all the export destinations, United States alone accounts for around 20-25% of the revenue share of the company.

**Moderate working capital requirement**

Despite operating in a highly working capital-intensive Industry, the working capital cycle of the company has remained moderate over the last five fiscals, staying in the range of 65-90 days. The increase in the operating cycle of the company has been because of the increase in collection period, which has increased from 42 days as on March 31, 2020, to 65 days as on March 31, 2024. The increase in the collection period of the company has primarily been because of the increased exposure towards TJ Maxx, its biggest US based client. The inventory holding period of the company remained moderate at 43 days as on March 31, 2024 (PY: 43 days). The creditors days of the company also stood moderate at 20 days as on March 31, 2024 (PY: 20 days). Going forward, the working capital requirements of the company are expected to increase with improving scale of operations, with operating cycle of company expected to remain in the range of 90-95 days.

**Moderate financial risk profile**

The capital structure of the company remained moderate as marked by overall gearing ratio of 0.76x as on March 31, 2024.The total debt of the company stood at Rs. 67.68 crores as on March 31, 2024. (PY: Rs. 60.80 crore), including term loans amounting to Rs. 20.74 crore, Rs. 42.30 crore working capital borrowings and Rs. 4.64 crore unsecured loan from promoters. The Total debt to Gross cash accruals (TDGCA) ratio and the Interest Coverage Ratio of the company stood at 5.04x and 4.25x respectively as on March 31, 2024, as compared 4.88x and 3.13x respectively as on March 31, 2023. The slight moderation in the debt coverage metrics is because of the increase in working capital requirements of the company. Going forward, the debt coverage Indicators are expected to improve, with reduction in term debt obligations and no major debt funded capex planned for FY25.

## Key weaknesses

**Susceptibility of profitability to volatile raw material prices**

Material cost comprises around 60-62% of the total cost of sales for the company. These raw materials primarily include cotton, cotton yarn, dyes and chemicals and other raw materials. The key raw materials of the company are cotton and cotton yarn, the prices of which have remained volatile in the past. This exposes the profitability margins of the company to raw material price volatility risk. However, the overall demand scenario, inventory holding policies, competition, among other factors, determines the ability of the company to pass on any fluctuation in the raw material prices. Furthermore, the global demand for home textiles determines the extent to which raw material prices can be passed on to the customers.

**Foreign exchange fluctuation risk**

RTL derived more than 90% of its total revenue from exports. During FY24, the foreign exchange earnings stood at Rs.208.23 crore (PY: Rs.206.98 crore), against which the foreign exchange outgo stood at Rs.10.07 crore (PY: Rs.4.64 crore). The company does not enjoy a natural hedge due to limited imports. The primary currency of dealing is the US dollar. For hedging export receivables, RTL takes forward cover, for around 50-55% of its foreign exchange exposure.

**Inherent risk in the textile industry**

RTL operates in an inherently cyclical and competitive textile industry. Any adverse changes in the global economic outlook as well as the demand-supply scenario directly impacts demand of the industry and therefore RTL. Factors like change in government policies, availability of labour etc. also impact the operations of the company. Furthermore, RTL is also exposed to competition from domestic and foreign players.

## **Liquidity**: Adequate

The liquidity position of the company remained adequate with a free cash and bank balance of Rs. 4.62 crore as on March 31, 2024. Further, expected gross cash accruals for FY25 stand at approximately Rs. 14-15 crores against debt repayment obligations of Rs. 9.08 crores. The current ratio and quick ratio of the company stood at 1.33x and 0.92x respectively as on March 31, 2024, as compared to 1.35x and 0.89x respectively as on March 31, 2023. The high working capital requirements are largely met though bank borrowings and average utilization for last twelve months ended June 2024 stood at ~80%.

**Assumptions/Covenants:** Not Applicable

**Environment, social, and governance (ESG) risks:** Not Applicable

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Cotton Textile

## About the company and industry

### Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer Discretionary | Textiles | Textiles & Apparels | Other Textile Products |

Riba Textiles Limited (RTL) is an export-oriented Terry Towels and Tufted Rugs manufacturing unit based 100 kms from New Delhi in the state Of Haryana. RTL has a current manufacturing capacity 15,000 tons. The production unit encompasses 24 acres of land with a built-up area of 10,00,000 square feet. RTL is a fully integrated unit with a composite plant incorporating Dyeing, Weaving, Finishing, Sublimation, Shearing Embroideries and Tufting.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) |
|---|---|---|
| Total operating income | 242.69 | 246.89 |
| PBILDT | 18.57 | 19.74 |
| PAT | 7.40 | 7.92 |
| Overall gearing (times) | 0.75 | 0.76 |
| Interest coverage (times) | 4.13 | 4.25 |

A: Audited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** CRISIL has placed the rating assigned to the bank facilities of Riba Textiles Limited into Issuer Not Cooperating category vide their press release dated April 26, 2024, on account of their inability to carry out a review in the absence of requisite information.

**Any other information:** Not Applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | March 2029 | 25.00 | CARE BBB; Stable |
| Fund-based - LT/ ST-Working Capital Limits | | - | - | - | 50.00 | CARE BBB; Stable / CARE A3+ |

## Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Fund-based - LT/ ST-Working Capital Limits | LT/ST | 50.00 | CARE BBB; Stable / CARE A3+ | | | | |
| 2 | Fund-based - LT-Term Loan | LT | 25.00 | CARE BBB; Stable | | | | |

LT: Long term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable

## Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT/ ST-Working Capital Limits | Simple |

## Annexure-5: Lender details

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|---|
| To view the lender wise details of bank facilities please click here |

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

**Contact us**

| **Media Contact** | **Analytical Contacts** |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br><br>Ankur Sachdeva<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754 3444<br>E-mail: Ankur.sachdeva@careedge.in | Sajan Goyal<br>Director<br>**CARE Ratings Limited**<br>Phone: +91- 120 - 4452000<br>E-mail: sajan.goyal@careedge.in<br><br>Rajan Sukhija<br>Assistant Director<br>**CARE Ratings Limited**<br>Phone: +91- 120 - 4452000<br>E-mail: Rajan.Sukhija@careedge.in<br><br>Abhay Wanchoo<br>Rating Analyst<br>**CARE Ratings Limited**<br>E-mail: Abhay.Wanchoo@careedge.in |

**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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