Rajapalayam Mills Limited

May 27, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	660.85	CARE A; Stable	Assigned
Long Term / Short Term Bank Facilities	857.90	CARE A; Stable / CARE A2+	Assigned
Short Term Bank Facilities	51.00	CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Rajapalayam Mills Limited (RML) derive strength from extensive experience of its promoters in textile industry and it being a part of Ramco group, long and established position in the domestic and export market and healthy operating efficiencies with presence of captive renewable power plants. Ratings also factor operational synergies among the textile companies of the Ramco group having centralised procurement, marketing and quality control functions. Ratings also draw comfort from the management's stated articulation of support to RML in case of exigencies from the group and/or promoters. Ratings also factor sizeable unencumbered equity investments in listed group companies, such as, The Ramco Cements Limited (TRCL), Ramco Industries Limited (RIL) and Ramco Systems Limited (RSL). RML has option to sell part of these investments as demonstrated in the past in case of any exigencies.

However, ratings are tempered by moderation in its operating profitability over past two years ended FY25 (FY refers to April 01 to March 31) mainly on the back of slow ramp up of recently completed processed fabric capacity and decline in high margin exports. However, operating profitability is expected to recover from FY26 onwards with expected improvement in exports demand, ramp up of processed fabrics capacity and other cost-efficiency measures undertaken by the company. Ratings are also constrained due to RML's leveraged capital structure and weak debt coverage indicators, working capital intensive operations, susceptibility of operating profitability to volatility in raw material prices and foreign exchange rate fluctuations and its presence in the inherently cyclical, fragmented and competitive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in scale of operations while achieving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of over 15% on a sustained basis.
- Gradual increase in cash accruals as envisaged leading to improvement in debt coverage indicators.

Negative factors

- Lower-than-envisaged improvement in operational and financial performance with PBILDT margin below 10% on a sustained basis.
- Increase in encumbrance levels on its investments in listed group entities to over 75% of the current holding levels by way of pledge or non-disposal undertaking.
- Deterioration in overall credit profile of major companies of Ramco group.

Analytical approach: Standalone along with factoring linkages with the Ramco group having common promoter group and cross shareholding between the group companies. Ramco group consists of the eight companies, RML, TRCL, RIL, RSL, The Ramaraju Surgical Cotton Mills Limited, Sri Vishnu Shankar Mill Limited (rated 'CARE BBB-; Stable/ CARE A3'), Rajapalayam Textile Limited (rated 'CARE BBB-; Stable/ CARE A3') and Sandhya Spinning Mill Limited (rated 'CARE BB+; Stable/ CARE A4+'). TRCL has strongest credit profile in the group. Being the flagship company of the group, RML is expected to receive need-based support from the Ramco group in case of exigencies and it has also extended corporate guarantee (CG) to other textile company of the Ramco group. Further, there are operational synergies among textile companies of the group.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes RML's operating profitability to improve significantly from FY26 onwards leading to gradual improvement its financial risk profile in the medium term. Moreover, RML shall continue to benefit from extensive experience of promoters and it being a part of Ramco group.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoters and clear articulation of support from group and/ or promoters

Over the years, Ramco group grew multi-fold with interests spanning across textiles, cement, building materials to software solutions. Presently, P.R. Venketrama Raja is the Chairman of Ramco Group. Under textile division, Ramco group has total installed capacity of 424,336 spindles, 7,852 rotors, 77.30 MW of windmills and arrangement for 45.21 MW of solar power as on March

[1]Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

31, 2025. Apart from common promoter group, group's textile companies derive operational synergies from centralised procurement, marketing and quality control functions. The group has demonstrated track record in providing technical, managerial and financial support to its group entities in case of exigencies. Ramco group has ensured zero default in all its companies over the past 89 years. As informed by the group Chairman, the group shall continue to ensure timely debt servicing and in case of exigencies, there will be support from promoters and/or group companies in the timely manner.

Long and established market position in domestic and export market with reputed clientele
Incorporated in 1936, RML has a track record of over eight decades in the cyclical textile industry. RML enjoys a good relationship with its existing customers due to long and established track record in the industry. RML has geographically diversified revenue profile and it derived ~30-40% of revenue from exports in past two years ended FY25. Its customer base is moderately diversified with top 10 customers accounting for ~50% of its total sales over past few years.
RML has a moderately diversified product profile where cotton yarn accounts for ~70-80% (including ~45% share of value-added yarn) of revenue. Contribution of value-added yarns has been gradually increasing over past few years. With ramp up of fabrics facility, share of fabrics in the revenue is expected to improve in the medium term.

Healthy operating efficiencies with presence of captive renewable power plant
Over past few years, RML has consistently operated its spinning capacity at ~95% except for FY24 due to muted demand in the industry which recovered in FY25. Capacity utilisation levels of processed fabric are also expected to ramp up (~60-70% in Q4FY25) in near term backed by growing demand. RML has windmills with installed capacity of 35.15 MW leading to significant savings in power cost. Till FY24, RML met ~55% of the total power requirements captively. With arrangement for group captive solar power for 17 MW, the same is expected to reach ~80-85% leading to savings in power costs.

Liquidity: Adequate
The average utilisation of RML's working capital limits stood high at ~96% for the 12 months ended March 2025. The current ratio continues to remain below unity. RML's operating cycle stood elongated at 226 days in FY24 largely on the back of extended receivables towards value-added yarns and finished fabrics. However, operating cycle improved to ~205 days in FY25 backed by improvement in the inventory holding period by 25 days.
RML has scheduled debt repayment obligations of ₹110-120 crore per annum for FY26 and FY27. RML's cash accruals are expected to remain lower to meet debt servicing in near-to-medium term necessitating refinancing. Additionally, RML's board has approved disposal of shares of TRCL to the extent of ₹120 crore. The shares are expected to be sold in Q1FY26. ₹60 crore of the proceeds are expected to be utilised for scheduled debt repayments while balance shall be utilised for repayment of loan availed for strategic investment in RIL in Q4FY25. Timely refinancing for debt repayments shall remain a key monitorable. RML derives financial flexibility being part of Ramco group and has a track record of refinancing for meeting its debt repayment obligations. RML has sizeable equity investments in listed group companies, such as TRCL, RIL and RSL. ~56% RML's stake in TRCL is under non-disposal undertaking/ pledge. The unencumbered market value of these quoted investments stood at ~₹1,550 crore as on March 31, 2025 (total market value of ~₹3,181 crore). In case of exigencies, RML has the option to raise additional finances against these shares of group companies for meeting its debt servicing requirements as demonstrated in the past.

Key weaknesses
Leveraged capital structure and weak debt coverage indicators
RML's capital structure marked by overall gearing is expected to moderate at ~2.50x as on March 31, 2025 (2.27x as on March 31, 2024) largely due to large size debt-funded capex over past few years, high working capital requirements, and expected net loss in FY25. The capital structure is expected to remain high in the medium term due to elevated debt level.
RML's debt coverage indicators marked by interest coverage ratio is expected to remain below unity in FY25 (FY24: 1.24x) mainly due to moderation in operating profitability. Despite decline in cotton prices and muted demand for textile products, RML's total operating income (TOI) is expected to grow by ~5% backed by improvement in cotton yarn spread and growth in sales volume. However, PBILDT margin is expected to moderate by over 200 bps in FY25 (FY24: 11.04%) as witnessed in 9MFY25, mainly on the back of operational losses from recently completed processed fabric capacity and decline in high margin exports. However, TOI is expected to grow at an average rate of ~8-9% in the medium term with expected recovery in demand and ramp up of the processed fabrics capacity. PBILDT margin is expected to significantly improve and remain in range of 12-14% in medium term backed by expected increase in share of high margin exports in revenue, positive contribution from processed fabric, receipt of Government subsidies and other cost efficiency measures undertaken by the management to reduce wastage in spinning process and savings in power and employee costs. However, despite expected improvement in operating profitability, interest coverage is expected to remain below 2x and total debt/ PBILDT is expected to remain above 6x in the near-to-medium term. RML is also expected to monetise ₹18-20 crore from non-core assets in FY26 which shall aid in growth of cash accruals.

Susceptibility to volatility in the raw material prices and foreign exchange rate fluctuations
The basic raw material consumed by RML to produce yarn is raw cotton, which accounts for nearly 50-60% of the total cost of sales. Raw cotton prices have been volatile over the last couple of years, which translates into risk of inventory losses for the industry players; though at times it also leads to inventory gains.
RML is also exposed to foreign exchange fluctuations as it derives ~30-40% of its revenue from the export market while it imports ~60-80% of its raw material requirements. Thus, RML's profitability margins remain susceptible to adverse movements in foreign currency. However, as informed by the management, RML hedges its foreign currency exposure through largely forward contract, mitigating the forex exposure to an extent.

Presence in cyclical, competitive and fragmented textile industry
The Indian textile industry is inherently cyclical in nature. Any adverse changes in global economic outlook and demand-supply scenario in the domestic market directly impacts domestic textile industry. Textile industry as a whole, remains vulnerable to factors such as input price fluctuations, mobilisation of adequate workforce and changes in government policies for overall development of the textile industry. Its highly fragmented structure results in high level of competition and intense pricing pressures. Operating margin is also susceptible to uncertainty associated with the US tariff. Though reciprocal tariff on India was lower than competing countries, trade agreement with the US by India and competing countries during a 90-day pause and resultant tariff would be monitorable.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles & apparels	Other textile products

Incorporated in 1936, RML is founded by P.A.C. Ramasamy Raja, founder of the South India-based Ramco group. Ramco Group is one of India's respected groups and has achieved recognition for its quality products and services. The group has well-diversified interests spanning from textiles, cement, building materials to software solutions.
RML is the flagship company of Ramco group. RML manufactures cotton yarn of counts ranging from 2s to 300s and other value-added products such as Elitwist, Gassed yarn, High twist, Melange, Core spun yarn, and Mercerized yarn among others. RML is a well-established entity in the textile sector renowned for its high-quality yarn and fabrics. RML commenced operations with ~6,000 spindles and currently has an installed capacity of 151,808 spindles, 328 looms, 2,960 rotors and 180 lakh metres of finished fabrics as on March 31, 2025 across its four manufacturing facilities in and around Rajapalayam, Tamil Nadu. RML also has windmills with installed capacity of 35.15 MW and group captive solar power arrangement for 17 MW.

Brief Financials – Standalone (₹ crore)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total operating income	863	861	681
PBILDT	133	95	58
PBIT*	96	42	19
PAT	42	28	(37)
Overall gearing (times)	2.48	2.27	NA
Interest coverage (times)	2.42	1.24	0.86

A: Audited; UA: Unaudited; NA: Not available; Note: these are latest available financial results.
*inclusive of non-operating income such as dividend and interest on investments, etc.

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-03-2032	483.22	CARE A; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	28-02-2030	177.63	CARE A; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	255.90	CARE A; Stable / CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	602.00	CARE A; Stable / CARE A2+
Non-fund-based - ST-Working Capital Limits	-	-	-	-	51.00	CARE A2+

Annexure-2: Rating history for 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 2025-2026	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
1	Fund-based - LT-Term Loan	LT	483.22	CARE A; Stable	-	-	-	-
2	Non-fund-based - ST-Working Capital Limits	ST	51.00	CARE A2+	-	-	-	-
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	255.90	CARE A; Stable / CARE A2+	-	-	-	-
4	Fund-based/Non-fund-based-LT/ST	LT/ST	602.00	CARE A; Stable / CARE A2+	-	-	-	-
5	Fund-based - LT-Working capital Term Loan	LT	177.63	CARE A; Stable	-	-	-	-

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

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable.

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Limits	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-Working Capital Limits	Simple

Annexure-5: Lender details

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

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

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