SEPTEMBER 14, 2015

CARE ASSIGNS 'PROVISIONAL CARE A1+ (SO)' RATING TO THE CP ISSUE OF RAJAPALAYAM MILLS LIMITED

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Commercial Paper (CP) Issue*	25 (Rupees Twenty Five crore only)	Provisional CARE A1+ (SO) [Provisional A one Plus (Structured Obligation)]	Assigned

**carved out of the working capital limits of the company and backed by a proposed credit enhancement in the form of an unconditional and irrevocable on demand back-stop facility provided by IDBI Bank Ltd (IDBI rated CARE AA+ for various Tier II issues)*

Rating Rationale

The 'provisional' rating assigned to Rajapalayam Mills Limited (RML) factors in the proposed credit enhancement in the form of an unconditional and irrevocable on demand back-stop facility provided by IDBI Bank Ltd (IDBI) for timely repayment of the obligations on the rated instruments.

The 'provisional' rating will be confirmed after the execution of the unconditional and irrevocable on demand back-stop facility agreement with IDBI for the entire amount of the proposed issue and to the satisfaction of CARE.

Rating Rationale of IDBI

IDBI Bank Ltd.'s rating factors in the majority ownership and support by Government of India (GOI), comfortable capitalization level and large scale of operations. The rating is, however, constrained by moderate asset quality, pressure on profitability and moderate CASA deposit proportion. Continued ownership and support from GOI, asset quality and profitability are the key rating sensitivities.

Background

RML, incorporated in 1936, is a part of the Ramco Group, with other major entities in the group being 'The Ramco Cements Limited', 'Ramco Systems Limited' and 'Ramco Industries Limited'. RML is primarily engaged in spinning of cotton yarn and has 3 manufacturing facilities in Tamil Nadu and one in Andhra Pradesh. The company has a total installed capacity of 131,216 spindles and 3,816 rotors. RML produces counts upto 300s (single / double yarn) and also has value-added facilities like compact ring spinning, doubling / twisting, gassing, and slub yarn equipment. The company also has windmills with capacities of 32.75 MW in Tamil Nadu which are used for its captive purposes. RML reported PAT of Rs.26 crore on total operating income of Rs.402 crore in FY15.

Background of IDBI

Industrial Development Bank of India (IDBI) was established under the IDBI Act, 1964 as a Development Financial Institution (DFI). In September 2004, it was converted into a bank. As on September 30, 2014, it had a network of 1,488 branches (which includes one overseas branch at DIFC, Dubai) and 2,727 ATMs. IDBI Bank has five subsidiaries, viz., IDBI Asset Management Co. Ltd (100% stake), IDBI Capital Market Services Ltd (100%), IDBI Intech Ltd (100%), IDBI MF Trustee Company Ltd. (100%) and IDBI Trusteeship Services Ltd (54.7%). The bank also has a JV, IDBI Federal Life Insurance Company Limited with the bank holding 48% stake. Mr. M S Raghavan, former Executive Director of Bank of India, was appointed as Chairman and Managing Director of IDBI Bank in July 2013.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

During FY14, the bank's deposits and advances clocked a y-o-y growth of 3.8% and 0.7%, respectively. In FY14, the bank reported net profit of Rs.1,121 crore on total income of Rs.29,576 crore as against net profit of Rs.1,882 crore on total income of Rs.28,284 crore in FY13. An increase in provision for NPAs and restructured assets led to decline in net profit. The gross NPA ratio and net NPA ratio stood at 4.90% and 2.48%, respectively, as on March 31, 2014. As per Basel III, IDBI Bank reported capital adequacy ratio of 11.68% (Tier I – 7.79%) as on March 31, 2014.

In H1FY15, IDBI Bank reported net profit of Rs.225 crore on a total income of Rs.14,843 crore. As on September 30, 2014, gross NPA ratio and net NPA ratio stood at 5.72% and 2.79% respectively. IDBI Bank reported a CAR of 11.71% (Tier I – 7.62%) as on September 30, 2014.

As on March 31, 2015, IDBI Bank had a total asset base of Rs.356,031 crore.

Based on audited financials, IDBI Bank reported a PAT of Rs.873 crore on a total income of Rs.32,162 crore in FY15 (refers to the period April 1 to March 31), compared with a PAT of Rs.1,121 crore on a total income of Rs.29,576 crore in FY14.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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CIN - L67190MH1993PLC071691