

RATING RATIONALE

4Oct2019

Royal Valley Processing Mills

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs 4.57 Crs of Royal Valley Processing Mills.

Particulars:

Facilities**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Mar 2017)	Present
Fund based Cash Credit Term Loans	0.75 4.50	0.75 3.48	Long Term	BWR B/ Stable (Pronounced as BWR Single B)	BWR B/ Stable (Pronounced as BWR Single B)
Non Fund Based Bank Guarantees	1.50	0.34	Short Term	BWR A4 (Pronounced as BWR A Four)	BWR A4 (Pronounced as BWR A Four)
Total	6.75	4.57	Rs Four Crores and Fifty Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank Loan facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

The ratings continue to factor the experience of the promoters, locational advantages and moderate debt protection metrics. The ratings, however, remain constrained by the limited operational track record, small scale of operations, highly competitive industry and inherent risk associated with the constitution of the firm as a partnership.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that Royal Valley Processing Mills's business risk profile will be maintained over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- The experience of the promoters, Mr R Senthil Kumar and Mr R Vijayakumar in the textile industry and their understanding of the dynamics of the industry will continue to support the business risk profile.



- The firm is located in Tirupur, Tamil Nadu which is a textile hub. Thus, it benefits from the proximity of its unit to customers and suppliers.
- The firm has a moderate financial risk profile marked by low net worth and moderate gearing and debt protection metrics. Net worth was Rs 3.20 Crs while gearing was 1.85 times as on 31 Mar 2018. The firm's debt servicing capabilities are reflected by ISCR and DSCR of 3.17 times as on 31 Mar 2018. Net profit margin was 4.47% in FY18.

Credit Risks:

- The firm has a limited operational track record as it was established in Mar 2016.
- It has a small scale of operations marked by Net sales of Rs 6.35 Crs in FY18. In 11MFY19, the firm has reported Net sales of Rs 8.02 Crs.
- The firm operates in a highly competitive industry with a large number of organised and unorganised players which limits its bargaining power and puts pressure on profitability.
- Due to the constitution of the firm as a partnership, it is exposed to the risk of withdrawal of capital by the partners which might weaken the capital structure.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of **Royal Valley Processing Mills** and has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward, the ability of the firm to increase its scale of operations, improve profitability, efficiently manage its working capital and strengthen its overall credit profile would be the key rating sensitivities.

Positive: A significant increase in revenue and profits, infusion of capital by the promoters and improvement in the liquidity profile may lead to upgradation of ratings.

Negative: Substantial decline in revenues and profits, any large, debt funded capital expenditure and/or any stretch in the working capital cycle that weakens the financial risk profile may lead to downgradation of ratings.

LIQUIDITY POSITION - Stretched

Utilisation of working capital limits was high with the limits being almost fully utilised in the last one year. Net cash accruals were Rs 1.42 Crs while Net cash accruals/ Total debt was 0.24 times in FY18. Current Ratio was moderate at 1.43 times as on 31 Mar 2018. Cash and cash equivalents were low at Rs 0.02 Crs as on 31 Mar 2018.

COMPANY PROFILE

Royal Valley Processing Mills is a partnership firm established on 11 Mar 2016. The registered office and manufacturing unit are located at Tirupur, Tamil Nadu. The firm is engaged in printing work of hosiery and other textile products. Mr R Senthil Kumar and Mr R Vijayakumar are the partners of the firm.

KEY FINANCIAL INDICATORS

Key Financial Indicators	Units	FY18
Result Type		Audited
Total Operating Income	Rs Crs	6.37
EBITDA	Rs Crs	2.07
PAT	Rs Crs	0.28
Tangible Net worth	Rs Crs	3.20
Total Debt/Tangible Net worth	Times	1.85
Current Ratio	Times	1.43

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Facilities	Current Rating (Oct 2019)			Rating History		
	Tenure	Amount (Rs. Crs)	Rating	7Aug2018	21Mar2017	2016
Fund based Cash Credit Term Loans	Long Term	0.75 3.48	BWR B/ Stable (Pronounced as BWR Single B)	Rating Not Reviewed	BWR B/ Stable (Pronounced as BWR Single B)	NA
Non Fund Based Bank Guarantees	Short Term	0.34	BWR A4 (Pronounced as BWR A Four)	Rating Not Reviewed	BWR A4 (Pronounced as BWR A Four)	NA
Total		4.57	Rs Four Crores and Fifty Seven Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing companies](#)
- [Short Term Debt](#)

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Royal Valley Processing Mills

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Federal Bank	Cash Credit	0.75	-	0.75
2		Term Loan 1	2.80	-	2.80
3		Term Loan 2	0.68	-	0.68
4		Bank Guarantee 1	-	0.22	0.22
5		Bank Guarantee 2	-	0.12	0.12
Total Rupees Four Crores and Fifty Seven Lakhs Only					4.57



For print and digital media

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