RELIANCE
CHEMOTEX INDUSTRIES LIMITED

RCIL/SEC/16-17/
Dated: 23.06.2016

To,

The General Manager (Listing)
BSE Limited
24 Pheroze Jeejeebhoy Tower,
Dalal Street,
Mumbai-400 001

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirement) Regulation, 2015- Revision Credit Rating

Dear Sir,

Pursuant to Regulation 30 and Schedule III of SEBI (Listing Obligations and Disclosure Requirement) Regulation, 2015 and as per policy on determination of materiality of event. We would like to inform that ICRA has downgraded the long term rating from ICRA BBB to ICRA BBB- and short term rating from ICRA A3+ to ICRA A3.

Further, we are enclosing herewith copy of letter No. 2016-17/MUM/0377 DT 22.06.2016 for your reference along with Report from credit rating agency covering rationale for revision in credit rating.

This for your information and necessary record.

Thanking You,
For Reliance Chemotex Industries Ltd

(Vimal Tank)
Company Secretary & Compliance Officer

Encl: a/a

ICRA

ICRA Limited

CONFIDENTIAL

Ref: 2016-17/MUM/0377
June 22, 2016

Mr. Ravindra Kala
Chief Financial Officer,
Reliance Chemotex Industries Limited
27, Jolly Maker Chambers No. 2,
Nariman Point,Mumbai - 400021

Dear Sir,

Re: Surveillance of ICRA assigned Credit Rating for Rs. 122.92 crore Line of Credit of Reliance Chemotex Industries Limited (instrument details in *Annexure*)

As you are aware that in terms of the rating agreement received from its clients, ICRA is required to review all its ratings, on an annual basis, or as and when the circumstances so warrant.

Please note that the Rating Committee of ICRA, after due consideration, has **downgraded** the long-term rating for the captioned Line of Credit (LOC) from **[ICRA]BBB** (pronounced ICRA triple B)† to **[ICRA]BBB-** (pronounced ICRA triple B minus). The outlook on the long term rating has been revised to **'Negative'** from **'Stable'**. The Rating Committee of ICRA has also downgraded the short-term rating for the captioned LOC from **[ICRA]A3 +**(pronounced ICRA A three plus) to **[ICRA]A3** (pronounced ICRA A three).

The aforesaid ratings are valid till September 30, 2016.

The ratings as stated above are specific to the terms and conditions of the LOC as indicated to us by you. In case there is any change in the terms and conditions, or the size of the rated LOC, the same must be brought to our notice immediately. Any such change would warrant a rating review, following which there could be a change in the ratings assigned.

ICRA reserves the right to suspend, withdraw or revise the above rating at any time on the basis of new information or unavailability of information or such other circumstances, which ICRA believes, may have an impact on the rating assigned to you.

You are required to furnish a periodic statement (in the format enclosed) confirming the timeliness of payment of all obligations against the rated debt programme [interest and principal obligations for fund based as well as obligations under LOC/BG for non-fund based facility].

You are also required to inform us forthwith of any default or delay in the payment of interest and/or principal against the rated debt programme, or any other debt instruments and/or borrowings of your company. Further, you are requested to keep us informed of any other developments that could have a direct or indirect impact on the debt servicing capability of your company, with such developments including, but not limited to, any proposal for re-schedulement or postponement of repayment against any dues and/or debts of your company with any lender(s) and/or investor(s).

We thank you for your kind cooperation extended during the course of the rating exercise. Please let us know if you need any clarification.

With kind regards,

Yours sincerely,
for ICRA Limited

SUBRATA RAY
Senior Group Vice President &
Head - Corporate Sector Ratings

KARTHIK SRINIVASAN
Senior Vice President

† For complete rating definition please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

ICRA

Format for periodic undertaking
[To be sent periodically to ICRA Limited by email and fax]

The company has been regular in servicing all its principal and interest obligations in a timely manner and there has not been any delay or default (a missed or delayed payment in breach of the agreed terms of the issue) during the specified period. We also confirm that there has been no re-schedulement in regard to any of company's debt obligations. We also confirm that there has been no overdrawal of the drawing power sanctioned by the bank for a period of more than 30 consecutive days in case of bank facilities which do not have scheduled maturity/repayment dates.

Annexure

Details of Bank Limits Rated by ICRA (Rated on Long-Term Scale)	**(Rs. crore)**	**Rating**	**Assigned on**
	Term loans		
IDBI Bank	4.20	[ICRA]BBB- (Negative)	June 20, 2016
Rajasthan State Industrial Development and Investment Corporation	15.52	[ICRA]BBB- (Negative)	June 20, 2016
EXIM Bank	13.00	[ICRA]BBB- (Negative)	June 20, 2016
State Bank of India	19.76	[ICRA]BBB- (Negative)	June 20, 2016
	Fund based facilities		
State Bank of India	25.00	[ICRA]BBB- (Negative)	June 20, 2016
IDBI Bank	3.00	[ICRA]BBB- (Negative)	June 20, 2016
ICICI bank	5.00	[ICRA]BBB- (Negative)	June 20, 2016
Total	85.48		

Details of Bank Limits Rated by ICRA (Rated on Short-Term Scale)	**(Rs. crore)**	**Rating**	**Assigned on**
	Fund based bank facilities		
State Bank of India- Standby Limit	3.00	[ICRA]A3	June 20, 2016
	Non-fund based facilities		
State Bank of India- Credit Exposure Limit (CEL)	2.50	[ICRA]A3	June 20, 2016
IDBI Bank-Letter of credit/BG	10.00	[ICRA]A3	June 20, 2016
ICICI Bank-Letter of credit/CEL	21.94	[ICRA]A3	June 20, 2016
Total	**37.44**		

RELIANCE CHEMOTEX INDUSTRIES LIMITED

Rating Action

Long-term rating

[ICRA]BBB- (Negative)/ Downgraded from [ICRA]BBB (Stable)

Short-term rating

[ICRA]A3/Downgraded from [ICRA]A3+

Total Limits Rated

Rs. 122.92 crore

Sector

Textiles

Sub-sector

Spinning- Man-made and others

Rating Methodology

» Textiles (Spinning)

Company Profile

Reliance Chemotex Industries Limited (RCIL) makes synthetic and blended yarn including viscose yarn, polyester yarn and blended poly-viscose yarn, which find applications across industries for technical fabrics, carpets, upholstery etc. The company was incorporated in 1977 by Mr. S.L Shroff. The manufacturing facility of the company is located at Udaipur (Rajasthan) and has a current installed production capacity of 53,280 spindles.

Key Rating Considerations

Credit Strengths

- Established track record of the promoters with a vast experience of over three decades in the textile industry
- Steady increase in the contribution of exports towards total revenues as company expanded its geographic presence
- Healthy relations forged with customers resulting in repeat orders

Credit Challenges

- Significant debt repayment obligations over the next two years
- Weakened accruals of the company due to continued pressure on realisations; further profitability remains exposed to fluctuations in raw material prices (as witnessed in FY2016) on account of weak bargaining power with suppliers as well as fluctuations in foreign exchange rates
- Deterioration in financial profile as evidenced by increased gearing, sharp decline in RoCE and subdued debt-coverage indicators
- Significant proposed debt-funded capital expenditure in FY2017 may further adversely impact the credit profile and stretch the liquidity position, especially during the capacity ramp up phase

Sensitivities

- Improvement in profitability and accruals to ensure adequacy of accruals for debt servicing obligations

Rating Rationale

The revision in ratings and outlook takes into account the deterioration in the company's financial profile evidenced by increased gearing, a sharp decline in RoCE and subdued coverage indicators. Further, RCIL's liquidity position is likely to remain stretched, given the proposed capital expenditure plans and significant debt repayment obligations over the next two years. Notwithstanding the steady increase in the contribution of exports towards total revenues over the last two years, the accruals of the company have, however, weakened due to continued pressure on realizations, amid subdued demand conditions for the textile industry. Further, on account of the weak bargaining power of the company with its suppliers, the profitability also remains exposed to fluctuations in raw material prices (as was witnessed in FY2016). ICRA also takes note of the susceptibility of the company's profitability to foreign exchange fluctuations, though the same is largely mitigated by its policy of hedging its export receivables through forward contracts.

The ratings, however, continue to derive comfort from the established track record of the promoters in the textile industry as well as its established relationships with customers as reflected in repeat orders received by the company. The ability of the company to improve profitability and accruals will remain critical to ensure the adequacy of funds for debt-servicing obligations and would be a key rating sensitivity.

Update on Business and Competitive Position

Export-dominated sales; share of exports increased over the last two years aided by increased export volumes

RCIL has an export-dominated sales profile, with exports accounting for 64% of the company's revenues in FY2016 vis-a-vis 56% in FY2015. Share of exports to total revenues has steadily increased over the last two years, aided by an increase in export volumes. During FY2016, export volumes increased by a robust 23% (vis-a-vis FY2015) as the company expanded its geographical presence to other regions - including Spain, Mexico, South Africa and received larger orders from its existing clients. Notwithstanding this, realisations have, however, moderated during the last two years, in the backdrop of subdued demand conditions for the textile industry. As regarding the domestic market, the management has consciously restricted its sales in this segment owing to subdued demand as well as tight liquidity position of some of its customers. The trend in the production and sales volume for RCIL is furnished in Exhibit 1

Exhibit 1: Geography-wise break up of sales

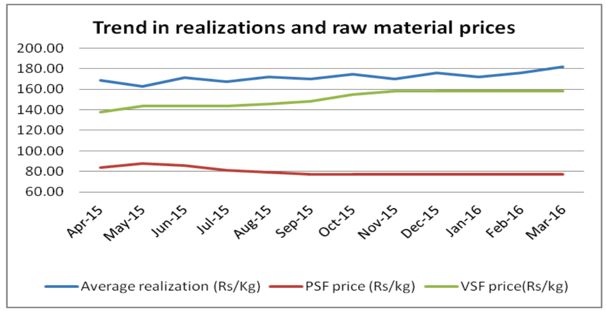
	Rs crore			Growth*	As a % of Revenues		
	FY2014	FY2015	FY2016		FY2014	FY2015	FY2016
Export	135.7	130.4	164.6	*26%*	54%	56%	64%
Domestic	114.2	104.1	92.5	*-11%*	46%	44%	36%
Total	249.9	234.5	257.1	*10%*	100%	100%	100%

Source: RCIL, ICRA research; * FY2016 viz FY2015

Sharp increase in viscose prices in FY2016; profitability remains vulnerable to fluctuations in raw material prices

The key raw materials for the company include polyester staple fibre (PSF) as well as viscose staple fibre (VSF). The company procures PSF directly from Reliance Industries Limited as well as through its various agents. VSF is sourced from Grasim Industries Limited, which is the largest supplier of the same in the domestic market. For both the raw materials, the prices are largely controlled by the suppliers on account of their strong bargaining power in the domestic market. Given that the increase in raw material prices is passed on to customers only with a lag, the profitability of the company remains vulnerable to fluctuations in raw material prices.

This was witnessed in FY2016, when RCIL experienced sharp increase in VSF prices, though the PSF prices largely witnessed a declining trend in line with lower crude oil prices. Given the lag in passing on of the raw material price increases, the profitability of the company got affected in FY2016. The trend in the raw material prices as well as realizations is shown in the graph alongside.



Source: RCIL, ICRA research

Plan to set up unit for manufacturing specialty yarn in FY2017

With a view to expand and diversify its product offerings, the company proposes to set up a production unit for manufacturing of specialty yarn in FY2017. The same is expected to be funded largely through debt.

Continued high regional and client concentration risks; mitigated by long presence in the industry and established customer relationships

The company has been operational in the yarn industry for over three decades and the promoters have established strong relations with their customers. In terms of geography, more than 70% of the export revenues of RCIL accrue from the European region, with Belgium accounting for 52% of the export revenues in FY2016. The company also expanded its geographic presence in FY2016 to regions like Spain, Mexico as well as South Africa, though their contribution towards total revenues remained small at around 7% in FY2016.

In terms of client profile, a majority of the company’s customers in the export market include manufacturing companies- chiefly carpet and upholstery players - with traders accounting for a small proportion of the revenues. The client concentration continues to remain high in the export market, with top eight customers accounting for 74% of the export revenues. The management has, however, indicated that the company has been supplying to these customers over the past many years and has continued to receive repeat orders from them, thereby mitigating the risk to an extent. Further, for the export market, manufacturing is done only on the basis of confirmed orders which are backed by a letter of credit (LC). As regarding the domestic market, RCIL primarily supplies to manufacturers of upholstery and garments.

Business Outlook

ICRA expects RCIL to continue to witness improvement in its export volumes, aided by the expansion in customer base as well as steady inflow of orders from its existing clients. Further, the management’s increased focus on the export markets, in the backdrop of a cautious approach towards the domestic market, is additionally expected to support growth in export volumes. Notwithstanding this, the ability of the company to improve realisations, amid the subdued demand outlook for the textile industry remains to be seen and would remain a critical determinant for the revenue growth and profitability going forward.

Update on Financial Position

Table 1: Trend in Key Financial Indicators Amounts in Rs. crore

	FY2014	FY2015	FY2016
Revenue and Profitability Indicators			
Operating Income (OI)	249.92	248.41	257.13
Growth in OI (%)	22.13%	-0.61%	3.51%
OPBDITA	23.22	24.55	18.76
Profit After Tax (PAT)	5.66	6.50	2.53
Net Cash Accruals (NCA)	8.98	9.25	5.87
OPBDITA/OI (%)	9.29%	9.88%	7.29%
PAT/OI (%)	2.26%	2.62%	0.98%
ROCE (%)	18.52%	16.49%	9.96%
Capitalisation and Coverage Indicators			
Short-term Debt	11.41	10.17	23.59
Long-term Debt	73.25	97.63	89.54
Total Debt	84.66	107.80	113.13
Tangible Net Worth (TNW)	32.57	36.11	35.59
Total Debt/TNW (times)	2.60	2.99	3.18
Total Debt/OPBDITA (times)	3.65	4.39	6.03
Interest Coverage (times)	1.89	1.68	1.22
TOL/TNW (times)	3.73	4.30	4.66
NCA /TD (%)	11%	9%	5%
DSCR (excl STD/prepayments)	1.03	1.00	0.85
Working Capital Indicators			
Debtor Days	26	21	30
Creditor Days	33	45	54
Inventory Days	41	62	66
NWC/OI (%)	12%	14%	15%
Cash Flow Indicators			
Fund Flows from Operations	20.90	19.16	15.09
Retained Cash Flows	10.31	7.68	1.82
Free Cash Flows	2.17	(21.82)	(5.19)

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PBIT: Profit before Interest and Taxes; APAT: Adjusted Profit after Tax; DTL: Deferred Tax Liability; CWIP: Capital Work-In-Progress; NCA: Net Cash Accruals; TOL: Total outside Liabilities; DSCR: Debt Service Coverage Ratio; NWC: Net Working Capital.

Source: Financial statements of RCIL and ICRA research

Notwithstanding the improvement in revenues, profitability remained subdued in FY2016 due to increase in VSF prices and power and fuel costs

The operating income of the company, after reporting a marginal decline in FY2014 due to weakening of export realisations, increased moderately by ~4% in FY2016 to Rs 257 crore. The increase in sales was largely driven by a robust increase of 23% in export sales volumes as the company increased its geographical presence in other export regions and received larger orders from existing customers, though the realisations have remained moderate. Notwithstanding this, given the rise in viscose prices and the increase in power and fuel costs (owing to discontinuation of supply of subsidised power from Lignite Power Limited; a matter which is currently sub judice), the OPBDITA margins witnessed a decline to 7.3% in FY2016 from 9.9% in FY2015. This, coupled with interest costs (due to an increase in debt levels) impacted the net profit levels, with the company reporting a PAT of Rs 2.53 crore in FY2016 vis-a-vis Rs 6.50 crore in FY2015. The company's RoCE also declined sharply to 9.96% in FY2016 over 16.49% in FY2015, on account of weakened profitability. The net cash accruals correspondingly weakened to Rs 5.87 crore in FY2016 from Rs 9.25 crore in FY2015.

Capital structure weakened over the last two years; debt coverage indicators have also moderated

The debt profile of the company is dominated by term loans (taken for part funding of capital expenditure undertaken by the company over the last five years), followed by unsecured loans and preference shares. The unsecured loans, advanced by related parties, carry an interest rate of 11% p.a. and do not have any specified repayment schedule. The preference shares issued by the company have been subscribed by the promoter group (including related companies held by the promoter group), are redeemable in nature and carry a dividend rate of 10%. Besides, the company also avails of working capital facilities to support its working capital requirements.

During FY2016, no new term loan was availed of by the company. Notwithstanding this, its overall debt levels witnessed an increase to Rs 113.13 crore as on March 31, 2016 vis-a-vis Rs 107.80 crore in March 31, 2015 as the company increased its reliance on working capital borrowings to fund the deficit in accruals, amid significant debt repayment obligations. Increase in debt levels, coupled with a moderation in accruals in turn led to weakening of the financial profile as is evident by the increased gearing and weakened debt coverage indicators. The gearing of the company and TOL/TNW increased to 3.18x and 4.66x as on March 31, 2016 vis-a-vis corresponding levels of 2.99x and 4.30x as on March 31, 2015, with the company reporting an interest cover of 1.22x, NCA/TD of 5% and DSCR of 0.85x for FY2016.

Continued moderate working capital intensity

The company generally offers a credit period of ~90 days to its customers, but since the orders are backed by a letter of credit (LC), the company generally discounts the LCs, thereby reducing the overall debtor days. There has been an increase in debtor days as on March 31, 2016 to 30 days from 21 days as on March 31, 2015 as company had booked a significant amount of revenues in March 2016. As regarding the payable period, the company generally makes cash payments for the purchase of PSF while making LC (90 days)-backed VSF purchases from Grasim Industries Limited. With respect to inventory, the company largely manufactures against confirmed orders and does not hold stock for a long period. There has, however, been an increase in inventory-holding period as on balance sheet date over the last two years as the company had held VSF inventory in anticipation of its reduced availability.

Liquidity

Consistent negative free cash flows; significant debt repayment obligations over the next two years stretch liquidity position

While the cash flows from operations have remained positive for the company over the last three years, given the capital expenditure and debt repayment obligations, the free cash flows have remained consistently negative for the company. The funding requirements have largely been met through increased dependence on external borrowings, which is also reflected in increasing debt levels of the company over the last three years.

The company has significant debt repayment obligations to the tune of ~14-15 crore over the next two years, which is expected to stretch the liquidity position of the company over the medium term. Further, the significant proposed debt funded capital expenditure by the company towards setting up of capacity for production of specialty yarn might additionally weaken the credit profile and further stretch liquidity position, especially during the capacity ramp up phase. Besides, any early redemption of preference shares could put further pressure on the credit profile. The ability of the company to improve profitability and accruals will remain critical to ensure the adequacy of funds for debt-servicing obligations and would be a key rating sensitivity.

Financial Outlook

Table 2: Financial Outlook

Revenues	Moderate growth; expected to be largely driven by increased export volumes
Profits	Range bound (in the absence of improvement in realisations)
Repayment obligations	~Rs. 14-15 crore each over the next two years
Capital expenditure	Significant debt-funded capex proposed in FY2017 towards setting up of manufacturing unit for specialty yarn
Debt	Likely to increase owing to proposed debt funded capex
Capitalisation and coverage	Moderate
Working capital intensity	Higher debtor/inventory levels possible as company ramps up capacity for specialty yarn
Working capital utilisation	~75%
Undrawn line of credit	Rs. 9.74 crore with respect to drawing power available (as on March 31, 2016)

Source: ICRA research

Detailed Breakup of Limits Rated by ICRA

Table 3: Details of RCIL's Bank Limits Rated on Long-term Scale

Bank Limits	Amounts (Rs.crore)	Rating
Fund-based bank facilities (Term loans)		ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Stable)
IDBI Bank	4.20	
Rajasthan State Industrial Development and Investment Corporation	15.52	
EXIM Bank	13.00	
State Bank of India	19.76	
Sub-Total (i)	**52.48**	
Fund-based bank facilities (Working capital- cash credit)		
State Bank of India	25.00	
IDBI Bank	3.00	
ICICI bank	5.00	
Sub Total (ii)	**33.00**	
Total (i+ii)	**85.48**	

Table 4: Details of RCIL's Bank Limits Rated on Short-term Scale

Bank Limits	Amounts (Rs. crore)	Rating
Fund-based limits (Standby line)		[ICRA]A3 downgraded from [ICRA]A3+
State Bank of India	3.00	
Sub-Total (iii)	**3.00**	
Non-fund based facilities		
State Bank of India- Credit Exposure Limit	2.50	
IDBI Bank-LC	10.00	
ICICI Bank-LC	21.94	
Sub-Total (ii)	**34.44**	
Total (ii)	**37.44**	

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