

RSWM/SECTT/2019  
December 11, 2019

BSE Limited Corporate Relationship Department, 1st Floor, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, MUMBAI - 400 001.	National Stock Exchange of India Limited Listing Department, Exchange Plaza, C-1, Block - G, Bandra-Kurla Complex, Bandra (East), MUMBAI - 400 051.
Scrip Code: 500350	Scrip Code: RSWM

**Sub: Review of India Ratings & Research for the Long Term and Short Term Credit Facility.**

Dear Sir,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, we wish to inform you that the India Ratings & Research has revised the Long Term and Short Term Credit Rating of the Company as follows vide their letter dated 3<sup>rd</sup> December, 2019 received by us on 11<sup>th</sup> December, 2019.

Term Loans : Rating of 'IND A' has been downgraded to 'IND A-'. The outlook has been retained as Negative.

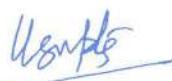
Fund Based Working Capital : Long Term rating of 'IND A' has been downgraded to 'IND A-' Short Term rating of 'IND A1' has been affirmed. The outlook has been retained as Negative.

Non Fund-Based Working Capital : Long Term rating of 'IND A' has been downgraded to 'IND A-' Short Term rating of 'IND A1' has been affirmed. The outlook has been retained as Negative.

Kindly take the same on record.

Thanking you,

Yours faithfully,  
For **RSWM LIMITED**



**SURENDER GUPTA**  
**COMPANY SECRETARY**  
**FCS - 2615**

(Formerly Rajasthan Spinning & Weaving Mills Limited)

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GSTIN: 08AACR9700M1Z3

Corporate Identification Number: L17115RJ1960PLC008216

Mr. Brij Sharma  
Joint Managing Director  
RSWM Limited  
Bhilwara Towers,  
A-12, Sector- 1,  
Noida- 201301

December 3, 2019

**Kind Attn: Mr. Brij Sharma, Joint Managing Director**

Dear Sir,

**Re: Bank Loan Ratings of RSWM Limited**

India Ratings and Research (Ind-Ra) has downgraded RSWM Limited's Long-Term Issuer Rating to 'IND A-' from 'IND A'. The Outlook is Negative. The instrument-wise rating actions are given below:

Instrument Type	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	INR6,858.4 (reduced from INR8,560.5)	IND A-/Negative	Downgraded
Fund-based limits	INR8,200	IND A-/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed
Non-fund-based limits	INR1,485	IND A-/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed

***Details of facilities are mentioned in the Annexure***

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. The rating detailed above is valid for 12 months from the date of this letter. Notwithstanding the above, the rating is subject to review on a continuing basis, with formal reviews being undertaken at regular intervals of no more than 12 months. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.



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In this letter, "India Ratings" means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please contact the undersigned at 022 – 4000 1700.

Sincerely,

India Ratings



Devendra Kumar Pant  
Senior Director



Sunil Kumar Sinha  
Director

### Annexure

<b>Details of the Bank Loan Facilities as on 30 Sep 2019</b>		
<b>Bank facilities</b>	<b>Ratings</b>	<b>Amount (INRm)</b>
<b>Fund-based limits<sup>c</sup></b>		
State Bank of India	IND A-/Negative/IND A1	3,800.0
Punjab National Bank	IND A-/Negative/IND A1	1,350.0
Bank of Baroda	IND A-/Negative/IND A1	780.0
Union Bank of India	IND A-/Negative/IND A1	696.0
HDFC Bank	IND A-/Negative/IND A1	410.0
ICICI Bank	IND A-/Negative/IND A1	625.0
YES Bank	IND A-/Negative/IND A1	750.0
<b>Total</b>		<b>8,411.0</b>
<b>Rated assessment-based financing (ABF)<sup>a</sup></b>		
		<b>8,200.0</b>
<b>Non-fund-based limits<sup>c</sup></b>		
State Bank of India	IND A-/Negative/IND A1	427.4
Punjab National Bank	IND A-/Negative/IND A1	623.2
Bank of Baroda	IND A-/Negative/IND A1	210.0
ICICI Bank	IND A-/Negative/IND A1	301.4
Union Bank of India	IND A-/Negative/IND A1	3.0
<b>Total</b>		<b>1,565.0</b>
<b>Rated ABF<sup>b</sup></b>		<b>1,485.0</b>
<b>Outstanding term loans from banks</b>		<b>Outstanding as on 30 Sep 2019</b>
Export-Import Bank of India	IND A-/Negative	1599.3
Central Bank of India	IND A-/Negative	2089.0
Oriental Bank of Commerce	IND A-/Negative	518.7
Syndicate Bank	IND A-/Negative	245.0
HDFC Bank	IND A-/Negative	0.0
Yes Bank	IND A-/Negative	1485.0
IndusInd Bank	IND A-/Negative	771.4
<b>Total (A)</b>		<b>6708.4</b>
<b>Undrawn portion of term loans</b>		
EXIM Bank	IND A-/Negative	150.0
<b>Total (B)</b>		<b>150.0</b>
<b>Grand total (A)+(B)</b>		<b>6858.4</b>

<sup>a</sup> Total consortium limits are INR8,411m but RSWM can avail maximum up to the ABF of INR8200m

<sup>b</sup> Total consortium limits are INR1,565m but RSWM can avail maximum up to the ABF of INR1,485m

<sup>c</sup> Fund-based and non-fund-based working capital limits shall be interchangeable among the consortium member banks to extent of sanctioned limits by the respective member banks, subject to the condition that the use of neither the individual sub-limits nor the overall limits shall exceed the sanctioned maximum permissible bank finance

Source: RSWM, Ind-Ra

# India Ratings Downgrades RSWM to 'IND A-'; Outlook Negative

**03**

By Akash Krishnatre

DEC 2019

India Ratings and Research (Ind-Ra) has downgraded RSWMLimited's Long-Term Issuer Rating to 'IND A-' from 'IND A'. The Outlook is Negative. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	March 2027	INR6,858.4 (reduced from INR8,560.5)	IND A/Negative	Downgraded
Fund-based limits	-	-	-	INR8,200	IND A-/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed
Non-fund-based limits	-	-	-	INR1,485	IND A-/Negative/IND A1	Long-term rating downgraded; short-term rating affirmed

The downgrade follows RSWM's breach of Ind-Ra's negative rating guideline of net adjusted leverage remaining above 4.0x beyond FY19. Ind-Ra notes the company's lower-than-expected operating profitability in 1HFY20 has been a hindrance in the company's deleveraging plans despite significant non-core asset monetisation reducing debt levels. This would result in the net adjusted leverage staying over 4x at FYE20. However, the company's further plans of non-core asset monetisation along with operational performance improvements could help deleveraging to levels commensurate to the ratings.

The Negative Outlook reflects the uncertainty of the net adjusted leverage sustaining below 4.5x in the near-to-medium term. Ind-Ra expects market improvements and gross margin recovery to only be gradual considering the oversupply situation and subdued demand environment in most of the product segments.

## KEY RATING DRIVERS

**Prolonged Weak EBITDA Performance:** RSWMs operational EBITDAmargins remained subdued at 6% in 1HFY20 ( FY19: 6.0%, FY18: 7.7%, FY17: 10.9%) due to a persistently weak demand environment and the increased costs of raw materials, power and other fixed costs. The denim and fabric industry has been facing a glut, which has led to sub-optimal capacity utilisation and weak profitability for the company. Furthermore, volatile raw material prices also resulted in inventory losses in the polyester blended yarn segment in 2HFY19. RSWMs increased costs on manpower and energy over the last two-to-three years affected its margins amid a difficult operating environment.

**High Leverage Risk:** Ind-Ra's deleveraging expectations for RSWM would not be met over FY20 in view of the continued weak profitability. This may lead to a continued high leverage of about 6.0x in FY20 (FY19: 8.0x, FY18: 6.6x, FY17: 4.5x) if any incremental plans on debt reduction are not executed over 2HFY20. Moreover, in such a case, the agency believes the company's net adjusted leverage could stay above 4.5x in FY21 as well. The management is working on the monetisation of its non-core assets to reduce the debt levels. As envisaged in the agency's earlier review, the company already completed the sale of equity investments of about INR1,630 million over 1HFY20. Additionally, the company has been working on the sale of different land parcels and obsolete machinery of around INR800 million over 2HFY20-1HFY21.

**Steps Taken for Operational Recovery:** RSWM has been taking measures to improve its operating profitability over the short-to-medium term. The additional 70-metric-ton-per-day recycled polyester stable fibre capacity, which was commissioned in February 2019, would cater to about 50% of internal polyester fibre requirements, thereby generating incremental savings and providing insulation from volatile fibre prices.

In 4QFY19, RSWM signed agreements with private players for the purchase of 17MW renewable power, generating savings of INR1-INR2/kWh. RSWM has been increasingly trying to outsource its fabric manufacturing requirements at about half of its operating costs. Moreover, the company has been making concrete efforts to reduce its high manpower costs by rationalising employee incentive structures and new employee hiring, as well as to increase its denim capacity utilisation and fabric processing utilisation to better absorb fixed costs.

**Liquidity Indicator - Stretched:** RSWM availed a new term loan of INR1.5 billion to improve its liquidity position in March 2019; however, the loan covenant mandating proceeds received from HEG equity sales to be completely used for pre-payment of proportionate loan may affect the liquidity position in FY21. RSWM has debt maturities of around INR0.9 billion in 2HFY20 and about INR1.8 billion in FY21. According to Ind-Ra, there would be no refinancing requirements over

FY20-FY21 in case the sale of land parcels takes place as planned. Ind-Ra expects liquidity scores ((free cash flows + available/probable capex term loans + unutilised working capital lines + proposed proceeds from the sale of investments)/debt obligations) to be adequate at about 1.3x and 1.2x in FY20 and FY21, respectively. However, any delays in land parcel sales beyond 1HFY21 may lead to refinancing requirements of about INR250 million in FY21.

RSWMs fund-based working capital limit utilisation (about 93% during the 12 months ended September 2019) and cash and equivalents position (INR150 million at end-September 2019) have improved since the last review supported by sale of investments. RSWMs gross interest coverage remained weak at 1.4x in 1HFY20 (FY19: 1.5x; FY18: 2.0x; FY17: 3.0x) though liquidity was supported by strong non-operational income from sale of assets.

Moreover, the agency expects RSWMs cash flow from operations to moderate to around INR1,300 million in FY20 (FY19: INR1,630 million, FY18: INR590 million; FY17: INR1,250 million); however, free cash flows would strengthen to INR1,270 million in FY20 (FY19: INR100 million) as the company plans to restrict its capital expenditure to only urgent maintenance and upgradation requirements.

**Price Volatility Risk:** RSWM follows stringent provisioning norms for slow-moving debtors and inventories. Inventory risks are mitigated by the company's revised sourcing policy, backed by an ongoing review of inventory requirements. The ratings, however, are constrained by the textile industry's inherent cyclical in the demand and raw material price volatility.

**Group Support and Financial Flexibility:** RSWM is a part of the LNJ Bhilwara group, which gives it adequate financial flexibility to refinance its bank loans on time. RSWMs ratings factor in the implicit support it receives from the group, as reflected in the timely asset monetisation of group investments to support the company's fund requirements over 1HFY20. Moreover, RSWMs liquid equity investments of about INR300 million in group associate companies HEG Limited ('IND AA/Stable) along with land parcels in discussions for sale of around INR1,000 million could be used for managing liquidity. Ind-Ra would monitor measures to liquidate non-core assets to support its deleveraging requirements in the short term.

**Sound Business Profile:** RSWMs business profile and cash flow are diversified in terms of geography, customers and products. It is among India's top three yarn manufacturers by revenue and spindle, with an operating record of over five decades and a strong marketing network. Ind-Ra believes the ongoing profitability issues could be resolved over the medium term and the profitability margin could rebound to healthy levels in view of RSWMs strong business profile. Moreover, given RSWMs a part of large established LNJ Bhilwara group, the company has access to an experienced management.

## RATING SENSITIVITIES

**Positive:** A recovery in the EBITDA supported by market demand improvements along with cost improvements leading to the net adjusted leverage reducing below 4.5x on a sustained basis, would lead to a Stable Outlook.

**Negative:** Further delays in the recovery of EBITDA and/or debt build-up leading to the net adjusted leverage staying above 4.5x beyond FY20, would lead to a downgrade.

## COMPANY PROFILE

Incorporated in 1960, RSWM is the flagship company of the LNJ Bhilwara group. The company has plants in six locations in Rajasthan, with a total capacity of 445,192 spindles, 4,800 rotors, 154 looms, 25 million metres denim, 120 metric-ton-per-day of recycled polyester stable fibre, 12 million metres of fabric manufacturing and 24 million metres of fabric processing.

RSWMs core product segment is synthetic yarn. It manufactures 100% polyester yarn, 100% viscose yarn and a large variety of blended yarn such as polyester viscose, polyester acrylic, carpet filé yarn, bamboo yarn, cotton melange yarn and lycra yarn.

## FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR billion)	29.6	29.4
EBITDA margin (%)	6.0	7.7
Gross interest coverage (x)	1.5	1.9
Net leverage (x)	8.0	6.6

Source: RSWM, Ind-Ra

## RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits	Rating	29 March 2019	28 August 2017	7 November 2016

		(million)				
Issuer rating	Long-term	-	IND A/Negative	IND A/Negative	IND A+/Negative	IND A+/Stable
Fund-based bank facilities	Long-/short-term	INR8,200	IND A/Negative/IND A1	IND A/Negative/IND A1	IND A+/Negative/IND A1	IND A+/Stable/IND A1+
Non-fund-based bank facilities	Long-/short-term	INR1,485	IND A/Negative/IND A1	IND A/Negative/IND A1	IND A+/Negative/IND A1	IND A+/Stable/IND A1+
Term loans	Long-term	INR6858.4	IND A/Negative	IND A/Negative	IND A+/Negative	IND A+/Stable

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity levels of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

## SOLICITATION DISCLOSURES

Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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## Applicable Criteria

[Corporate Rating Methodology](#)

[Short-Term Ratings Criteria for Non-Financial Corporates](#)

## Analyst Names

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