

Press Release
Reliance Spinning Mills Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating	Rating Action
Long Term Bank Facilities	999.39	CARE-NP BBB- [Triple B Minus] (Credit watch with negative implications)	Rating placed on credit watch with negative implications
Short Term Bank Facilities	5,080.00	CARE-NP A3 [A Three] (Credit watch with negative implications)	Rating placed on credit watch with negative implications
Total facilities	6,079.39		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has placed the ratings of ‘CARE-NP BBB-’ assigned to the long term bank facilities and ‘CARE-NP A3’ assigned to the short term bank facilities of Reliance Spinning Mills Limited (RSML) on credit watch with negative implications.

Rationale

The ratings for Reliance Spinning Mills Limited have been placed on credit watch with negative implications, following the ongoing pandemic of COVID-19 and its expected impact on the operational and financial performance of the company and on the overall Nepalese yarn spinning and textile sector. As a measure to combat the pandemic, Government of Nepal (GoN) has imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations and slowing down the economic activities. The lockdown has been extended multiple times with current extension till April 27, 2020. Impact of COVID-19 is expected to be seen in Nepalese economy in coming months.

The initial assigned ratings drew strength from the company’s healthy operational and financial profile characterized by growth in sales and moderate profitability parameters and debt service coverage indicators in FY19 (audited, refers to 12 months period ended mid-July 2019) and H1FY20 (Unaudited, refers to 6 months period ended mid-January 2020), however exposed to project related risk.

With lockdown imposed by the GoN, RSML had suspended all its manufacturing activities from March 24, 2020 which may impact the operational performance of the company. However, lately, the GoN has provided certain relaxation to the manufacturing industries to commence production with some conditions. Considering the same, from April 03, 2020, RSML started operations of its 2 sub-units out of its 6 sub-manufacturing units in Unit A.

The Outbreak of COVID-19 could have an impact on the revenue of the company temporarily in near term, as around 70% of the revenue generated is through export sales majorly to India and Turkey which are currently

under lockdown. Further, around 100% of the raw material requirement of the company is met through imports. The company however, currently has raw material stock for around 1 to 1.15 months which may reduce the impact to certain extent. As per the company, they are also procuring the imported raw materials required for production. While RSML’s performance in H1FY20 was comfortable, the revenue growth momentum, profitability and debt coverage indicators are expected to be under pressure. The company’s ability to achieve sales and profitability as envisaged and maintain its debt coverage indicators would remain critical.

Further, the Central Bank of Nepal has provided an extension of 3 months for the repayment of loans falling due in mid-April 2020 to provide some temporary relief. However, the company has not availed the relaxation and has made its debt repayments for the quarter ending mid-April 2020 and availed 10% rebate on interest charged for the quarter. With the continuation of lockdown at domestic and global level, the exact impact of the pandemic to the operational and financial performance of the company is not ascertainable. CRNL shall be continuously monitoring the COVID-19 crisis and its impact on the business, financial risk profile and liquidity position of the company during this period. CRNL may remove the ratings from watch and would take a final action on the ratings once clarity emerges on these issues.

About the Company

Reliance Spinning Mills Limited (RSML) is a public limited company established in the year 1994 and is the largest spinning mill in Nepal. RSML is engaged in manufacturing of Polyester, Viscose, Acrylic/Blended & Polyester Textured Yarns. The company has two factories: Unit A located at Khanar, Sunsari and Unit B located at Duhabi, Sunsari, Nepal. Currently, the total installed manufacturing capacity of the company is 36,000 MT per year. The company is now planning to expand its capacity in two phases by setting up a synthetic spun yarn unit of 4,680 MT and cotton spun yarn unit of 4,680 MT capacity as part of its expansion program.

Detailed rating rationale of the company is available at www.careratingsnepal.com

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Disclaimer

CRNL’s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	999.39	CARE- NP BBB- (Credit watch with negative implications)
Short Term Bank Facilities	Working Capital Limits	2,175.00	CARE-NP A3 (Credit watch with negative implications)
Short Term Bank Facilities	Non-Fund Based Limits	2,905.00	CARE-NP A3 (Credit watch with negative implications)
Total		6,079.39	