Ramaraju Surgical Cotton Mills Ltd

Business Overview:

(i) The Ramaraju Surgical Cotton Mills, Ltd is part of the Ramco Group of companies. The group has an annual revenue of around USD 1.0 billion, manufacturing cotton and specialized yarns, cement, roofing, and building products. The group also offers enterprise software solutions on the cloud.

(ii) The Ramaraju Surgical Cotton Mills was founded in 1939 in Rajapalayam, Tamil Nadu, to take advantage of the availability of the cotton grown by local farmers. The company, along with Rajapalayam Mills Ltd. that was established in 1935, was instrumental in transforming the region from an agrarian to an industrial society.

(iii) They are the largest producer of absorbent cotton, gauze, bandages, and other wound-care products in Southern India. The monthly production capacity is over 125 tons of medical-grade bleached cotton and over 1.5 million square meters of bandages and gauze products.

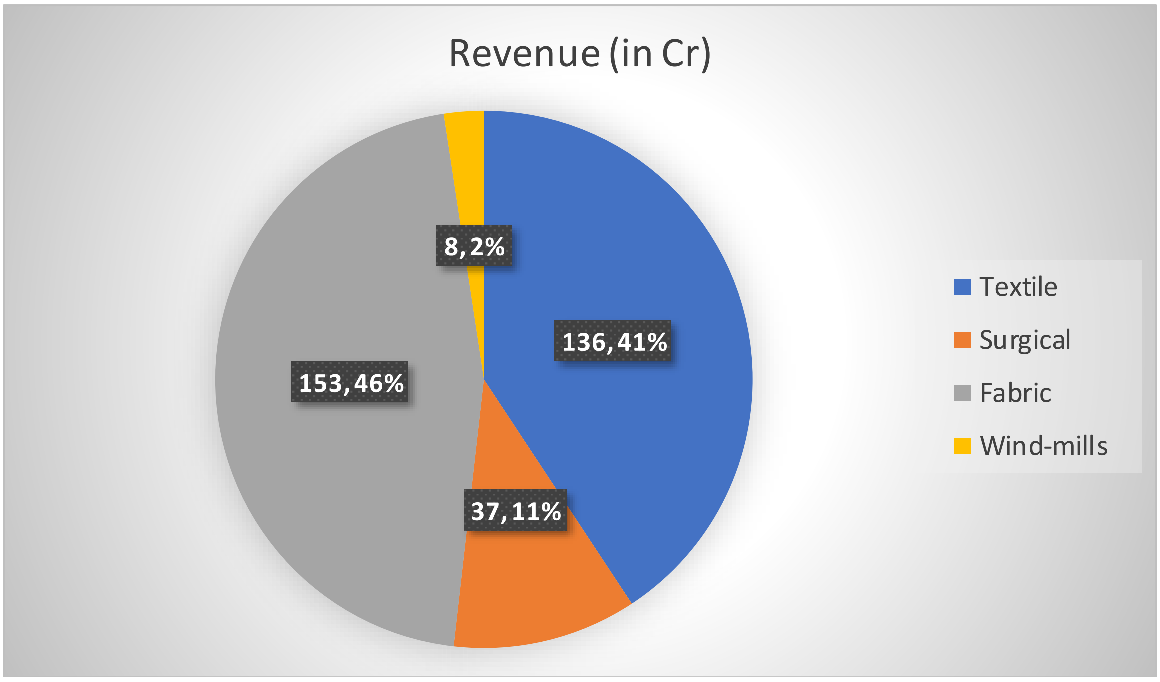
(iv) Over the years they have diversified into spinning and weaving, producing some of the world's finest cotton yarn and manufacturing premium fabrics for shirting, bed linens, and Jacquard cloth. They produce nearly 400 tons of superfine count ring-spun yarn and about 400 tons of open-end yarn per month. Today it offers over 200 unique products with the help of a 2,200 strong workforce.

Factories:

A. Surgical Division
   1. Rajapalaiyam
   2. Perumalpatti
B. Spinning Division: Sudarsanam Spinning Mills
   1. Rajapalaiyam
   2. Silvassa
   3. Subramaniapuram
   4. Thirumalagiri Village, AP.
C. c) Fabric Division: Sudarsanam Fabrics

   Perumalpatti

Revenue contribution in FY19-20 from various segments



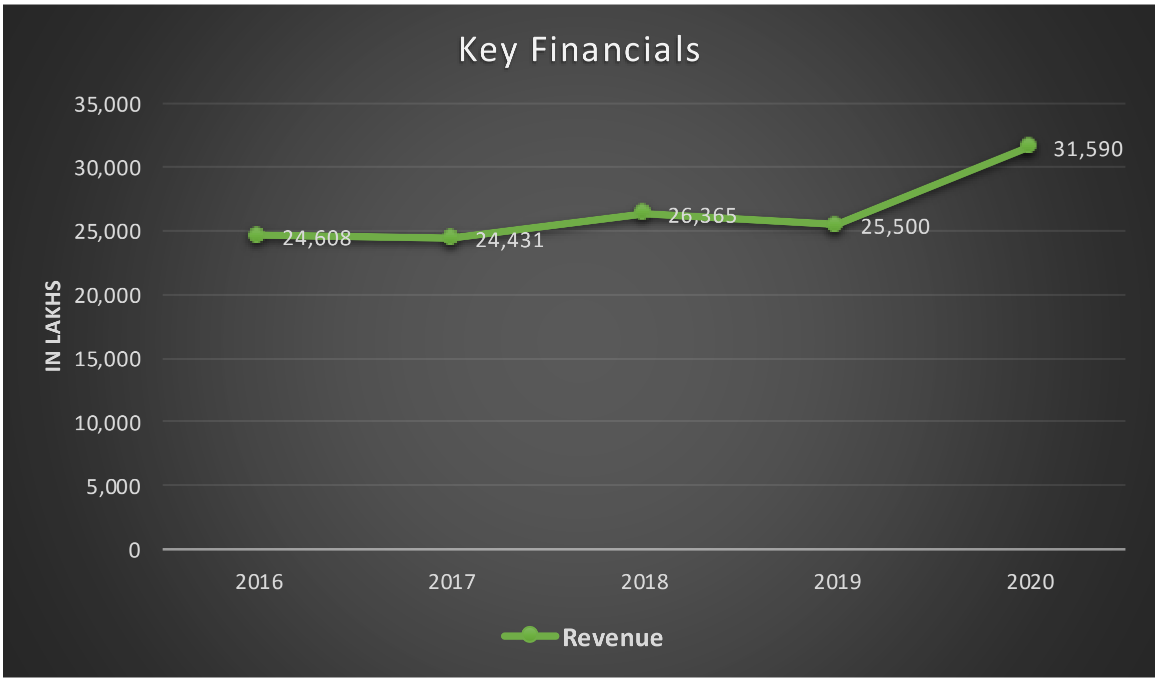
Promoters And Management::

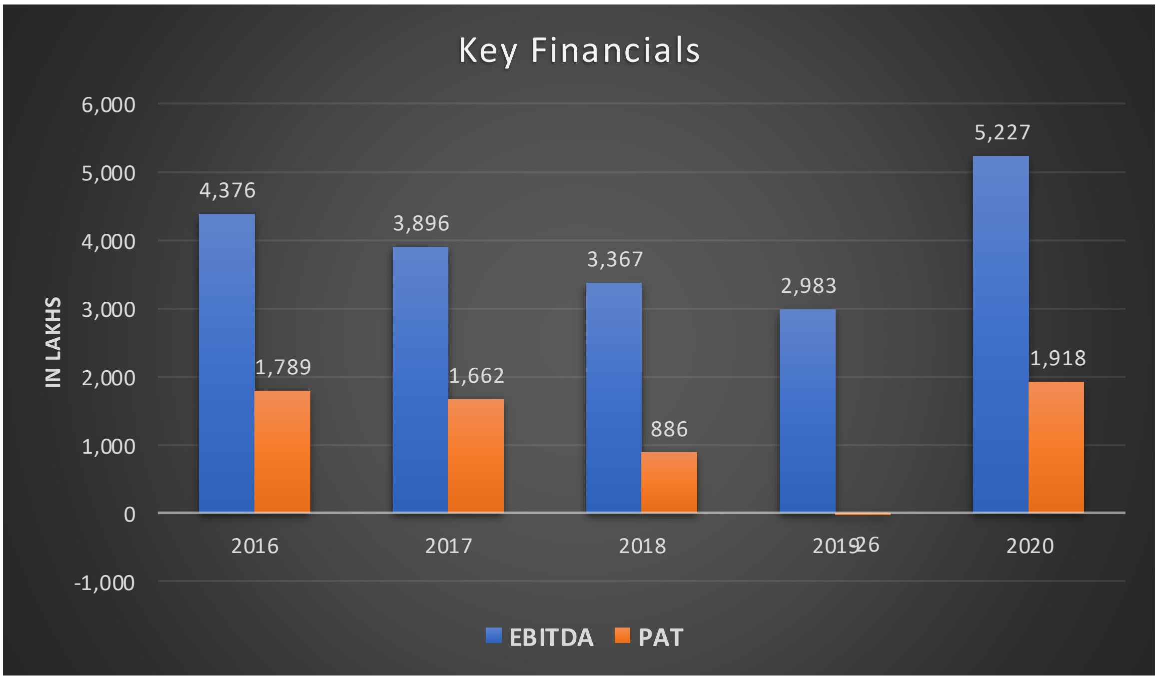
1. Poosapadi Ramasubrahmaneya Rajha Venketrama Raja, Chairman
2. Nalina Ramalakshmi, Managing Director
3. Namboor R Krishnama Raja Ramkumar Raja, Managing Director
4. Muthukumaran Karunakaran, Nominee Director
5. Nambur Krishnama Raja Shrikantan Raja, Non-Independent Director
6. Poosapadi Alaga Raja Jaganatha Raja, Independent Director
7. Poosapadi Perumal Subba Raja Janarthana Raja, Independent Director
8. Vaidyanathan Santhanaraman, Independent Director
9. Poosapadi Jagadeeswara Raja Ramkumar Rajha, Independent Director
10. Poosapadi Angaiaraja Bhimaraja Raju, Independent Director

Financials:

(Fig. in Lacs)

Year	Revenue	EBITDA	OPM	PAT	Shares	EPS	NW
2016	24,608	4,376	18%	1,789	19.73	91	19,527
2017	24,431	3,896	16%	1,662	19.73	84	21,199
2018	26,365	3,367	13%	886	39.5	22	21,726
2019	25,500	2,983	12%	-26	39.5	-1	21,734
2020	31,590	5,227	17%	1,918	39.5	49	23,652





<u>Financials Analysis for FY19-20:</u>

1. Ramaraju has performed exceptionally well in the year FY19-20. The revenue has gone up from 255 Cr to 316 Cr and has shown growth of 23%.
2. The EBITDA margins have also improved by 500 basis points which is excellent.

3. Ramaraju has shown a profit of 19 Cr in FY19-20 as compared to a loss last year.
4. Having performed well in P&L wise but the balance sheet is getting weak. The current ratio has gone further down from 0.73 to 0.70 this year. The current ratio below 1 is already a sign of danger. This means the company's liquidity position is not strong.
5. The company has a D/E of 1.31. Anything above 1 is in dangerous territory. Total borrowing stands at 267 Cr at the end of FY19-20 against a net-worth of 236 Cr.
6. Trade receivable days have also gone up 43 days to 78 days, shown the pain of Ramaraju to collect dues from debtors in time.
7. The Cash flow from the operation has also gone down from 21 Cr to 11 Cr and the company is not generating any free cash flow from the business. P&L rosy picture is not reflecting in Balance Sheet and Cash-Flow statements.

Future Outlook

1. Spinning Division

   Challenging market conditions for the spinning mills across the entire globe. With excess capacity and lower demand 2019-20 has been a difficult year. With the decrease in yarn demand, the Company did not see any equivalent decrease in cotton prices primarily due to the minimum support price (MSP) implemented by the government owned Cotton Corporation of India (CCI). In addition, CCI's purchase of cotton early in the picking season captured the high-quality yarn forcing the Company to pay higher than market to procure quality cotton during the remainder of the year. Open-end (OE) yarn sales have been very adversely affected during this year with the slowdown of demand from China having been affected by the US-China trade dispute. The Company continues to see strong headwinds for the business in this segment.

   For the Financial Year 2020-21, the Company plan to focus on cost reductions with an emphasis on power. With the installation of power saving motors and change in the suppliers for power, the Company expects significantly lower costs.

2. Surgical Division

   The Company continues to retain its customers by delivering high quality absorbent cotton, gauze and bandages and was able to achieve steady sales during the Financial Year 2019-20. The last 10 days of lock down in

March, 2020 has impacted the sales number by about 6 % below last fiscal year.

The impact of pandemic COVID-19 is expected in first half of Financial Year 2020-21 as hospitals have slowed their outpatient and elective procedures to keep capacity open for COVID outbreak patients. Extended lock downs have also had an impact on ythe retail channel. As a result, the consumption of the surgical products can be under pressure for the first half of Financial Year 2020-21. Post first quarter of financial year 2020-21, hospitals are expected to slowly pick up their operations and the Company expects to see demand for the surgical products come back to normal levels. The Company is also planning to expand sales to new territories and strengthen the sales force in this segment. The Company has also set in place a strong cost reduction plan for this fiscal year.

3. Weaving Division

The weaving division now account for around 50% of the company's revenue. Company installed additional 24 rapier looms that has been in production during the second half of 2019-20 to meet the demand of more complex and tighter weaves. The Company has invested in bringing the power cost down. With the commissioning of solar panels over the entire rooftop of the weaving operations as well as implementing an air consumption control unit, the demand for power has drastically reduced. The full benefits of these investments will be seen during Financial Year 2020-21. To control sizing costs, the Company has installed a control unit to maintain uniformity of sizing pick up thereby reducing chemical consumption. Overall, the Company had a higher production with lower per meter actual costs. This trend will be further enhanced in the Financial Year 2020-21.

4. Exports

On the export front during the year, the Company has made export of Cotton Yarn and Grey Fabrics (including merchant exports) for a value of $ 68.49 Crores as against $ 61.49 Crores of the previous year.