



SMERA RATINGS LIMITED

Mountain Spinning Mills Limited (MSML)**Rating
Rationale****October 27, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	14.00	SMERA B-/Stable (Assigned)
Term Loan	12.51	SMERA B-/Stable (Assigned)
Letter of Credit	2.00	SMERA A4 (Assigned)
Bank Guarantee	0.80	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of **'SMERA B-' (read as SMERA single B minus)** and a short-term rating of **'SMERA A4' (read as SMERA A four)** to the Rs.29.31 crore bank facilities of Mountain Spinning Mills Limited (MSML). The outlook is **'Stable'**. The ratings are constrained by the company's modest scale of operations in a highly competitive and fragmented segment of the textile industry. The ratings are also constrained by the company's weak financial profile and stretched liquidity positions. The ratings note that the company's profit margins are susceptible to volatility in raw material prices. However, the ratings are supported by the company's long track of operations and experienced management.

MSML, incorporated in 1990, is a Tuticorin-based company engaged in manufacturing of cotton yarn. MSML has a modest operating scale with revenues of Rs.45.64 crore in FY2013-14 (refers to financial year, April 01 to March 31). The company faces intense competition from several players engaged in manufacturing of cotton yarn.

MSML's weak financial risk profile is marked by low net worth of Rs.5.06 crore and high leverage of 4.62 times as on March 31, 2014. The company's interest coverage ratio is low at 1.04 times in FY2013-14. MSML has incurred net losses over the last three years on account of volatility in raw material prices and power outages in Tamil Nadu.

MSML's stretched liquidity position is reflected in average working capital utilisation of 87 per cent during March 2014 to August 2014.

MSML benefits from its experienced management. Mr. G. Vettivel, director of MSML, has around two decades of experience in the company's line of business.

Outlook: Stable

SMERA believes the outlook on MSML's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management and established presence in the textile industry. The outlook may be revised to 'Positive' in case the company achieves strong growth in revenues and profit margins with significant improvement in financial profile. The outlook maybe revised to 'Negative' in case of deterioration in the company's financial profile, or in

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case of steep decline in the company's revenues and profit margins. The company's ability to scale up its operations and register healthy profitability to comfortably service its debt obligations remains the key rating sensitivity.

About the company

MSML, incorporated in 1990, is a Tuticorin-based company promoted by Mr. G. Vettivel. MSML is engaged in manufacturing of cotton yarn. The company has a manufacturing unit in Tuticorin (Tamil Nadu), with installed capacity of ~27,072 spindles.

For FY2013-14, MSML reported net loss of Rs.2.70 crore on operating income of Rs.45.64 crore, as compared with net loss of Rs.1.10 crore on operating income of Rs.39.58 crore in FY2012-13. MSML's net worth stood at Rs.5.06 crore as on March 31, 2014, as compared with Rs.7.76 crore a year earlier.

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