

M. K. Cotex: Reaffirmed

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	6.00	SMERA BB-/Stable (Reaffirmed)

SMERA has reaffirmed the rating of **'SMERA BB-' (read as SMERA double B minus)** on the Rs.6.00 crore bank facility of M K Cotex (MKC). The outlook is **'Stable'**.

To arrive at the rating, SMERA has consolidated the business and financial risk profiles of TDB Spinners Private Limited (TSPL) and M K Cotex (MKC) together referred to as the TDB Group. The consolidation is due to the common ownership and operational linkages within the group.

The rating continues to draw comfort from the firm's established track record of operations, improving operating profitability and moderate financial risk profile. However, the rating is constrained by the declining revenue growth rate, working capital intensive operations and the highly competitive and fragmented textile industry.

Updates

The Indore-based TDB group is engaged in the ginning and pressing of cotton. The group focuses on in-house manufacturing rather than outsourcing operations resulting in improvement in operating profitability over the previous year. The EBITDA margins increased from 2.17 percent in FY2014-15 to 5.04 percent in FY2015-16. The financial risk profile is marked by moderate gearing of 1.48 times as on 31 March, 2016 as against 1.83 times on 31 March 2015. The interest coverage ratio stood at 1.42 times for FY2015-16. The liquidity profile is stretched as it continues to fully utilise working capital limit.

The revenue of the group declined by 71.45 percent in FY2015-16 compared to the previous year, mainly due to the fact that TDB Spinners Pvt. Ltd. has stopped its out-sourcing of job work to manufacture cotton yarn as the group saw that the operations from job work out-sourcing activity was putting downward pressure on the operating margins and therefore the same was not viable. Revenue contribution from manufacturing through out-sourcing of job work contributed around 60 percent of total revenues. The group's operating income stood at Rs.58.32 crore in FY2016 as compared to Rs.204.25 crore in FY2015.

The operations are working capital intensive with high Gross Current Assets (GCAs) of 177 days in FY2015-16 on account of high debtor and inventory levels of 90 and 87 days respectively. The rating also factors in the group's presence in the highly fragmented and competitive textile industry.

Rating Sensitivity Factors

- Scaling up operations while maintaining comfortable financial risk profile
- Changes in government regulations

Outlook: Stable

SMERA believes that the TDB Group will maintain a stable outlook and continue to benefit over the medium term from its promoters' extensive experience in the textile industry. The outlook may be revised to 'Positive' if the group achieves higher than expected revenues while maintaining liquidity

profile. Conversely, the outlook may be revised to 'Negative' if the group fails to achieve scalability or if the financial risk profile deteriorates.

Criteria applied to arrive at the rating:

- Manufacturing Entities

About the Firm

MKC, established in 2009, is an Indore-based proprietorship firm engaged in the ginning and pressing of cotton. The firm was promoted by Mr. Mahendra Gupta, who possesses experience of around two decades in the textile industry. MKC reported net profit of Rs.0.11 crore on operating income of Rs.16.21 for FY2015-16 as compared to net profit of Rs.0.47 crore on operating income of Rs.22.45 crore for FY2014-15.

About the TDB Group

The TDB Group reported net profit of Rs.0.21 crore on operating income of Rs.58.32 crore for FY2015-16 as compared to net profit of Rs.0.65 crore on operating income of Rs.204.25 crore for FY2013-14.

Rating History

Date	Facility	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
08 Sept, 2015	Cash Credit	6.00	SMERA BB- (Assigned)	-	Stable

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ABOUT SMERA

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