

Press Release

M. K. Cotex

May 10, 2018



Rating Downgraded

Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	SMERA B+ / Outlook: Stable (Downgraded from SMERA BB-/Stable)

* Refer Annexure for details

Rating Rationale

SMERA has downgraded long-term rating to '**SMERA B+** (read as SMERA B plus) from '**SMERA BB-**' (read as SMERA double B minus) on the Rs.6.00 crore bank facilities of M. K. Cotex. The outlook is '**Stable**'.

The rating downgrade is in view of significant decline in scale of operations and profitability margins of the group. SMERA believes that the ability of the group to sustain its profitability margins, scale of operations and maintain sufficient liquidity for its debt protection metrics will be key rating sensitivities.

M K Cotex (MKC), established in 2009, is an Indore-based proprietorship firm engaged in ginning and pressing of cotton. The firm was established by Mr. Mahendra Gupta, who possesses experience of around two decades in the textile industry.

About the Group

M K Cotex and TDB Spinner Private Limited together referred to as TDB group based in Indore is engaged in ginning and pressing of cotton and manufacturing and trading of cotton and blended yarn (polyester and viscose) of count ranging from 8s to 40s at its manufacturing plant at Madhya Pradesh.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

TDB group was incorporated in 1996 by Mr. Vijay Menon and Mr. Mahendra Gupta and MKC was established in 2009 by Mr. Mahendra Gupta, thereby establishing track record of more than a decade in consolidation. The management of the group has experience of more than a decade in the textile industry.

• Average financial risk profile

The financial risk profile of the group has been average marked by net worth of Rs.11.91 crore as on 31 March, 2017. The gearing stood at 1.68 times as on 31 March, 2017 as against 1.48 times as on 31 March, 2016. The total debt of Rs.20.00 crore outstanding as on 31 March, 2017 comprises unsecured loans from Directors of Rs.3.12 crore, long term loan of Rs.0.11 crore and working capital facility of Rs.16.77 crore from the bank. The Interest Coverage Ratio stood at 1.51 times in FY2017 against 1.42 times in FY2016. The Net Cash Accruals declined to Rs.0.81 crore in FY2017 from Rs.0.98 crore in FY2016. The NCA/TD ratio stood at 0.04 times in FY2017 as against 0.06 times in FY2016.

Weaknesses

- **Significant decline in scale of operations and profitability margins**

The scale of operations have declined to Rs.57.82 crore in FY2017 as against Rs.52.47 crore in FY2016 and Rs.204.25 crore in FY2015. The reason for decline in scale of operations is because the group has stopped 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 profitability margins have also declined Y-O-Y. The EBITDA margins for FY2017 declined to 4.78 percent as against 5.60 percent in FY2016. The group also reported thin net profit margin of 0.10 percent in FY2017 as against 0.39 percent in FY2016 and 1.16 in FY2015. SMERA believes the ability of the group to sustain its business profile by maintaining its revenues will be key rating sensitive.

- **Susceptibility of profitability margins to volatility in raw material prices**

Prices of raw cotton are fixed by the government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with suppliers as well as customers. Adverse movement of cotton prices further impacts the profitability of the group.

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets (GCAs) of 248 days for FY2017 as against 199 days for FY2016. This increase is on account of receivables and inventory holding period of 134 days in FY2017 and 99 days respectively as against 82 days and 97 days in FY2016. The average bank limit utilisation stood at 90 percent for the last six months ended April 2018. SMERA believes that being into textile industry the operations of the group will remain working capital intensive.

Analytical Approach

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.

Outlook: Stable

SMERA believes that the MK Cotex and TDB Spinners' will continue to maintain a 'Stable' outlook over the medium term from the extensive experience of the promoters. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue while maintaining its liquidity profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve the expected scalability or if financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	62.13	58.32	204.25
EBITDA	Rs. Cr.	2.76	2.94	4.44
PAT	Rs. Cr.	0.06	0.21	0.65
EBITDA Margin	(%)	4.45	5.04	2.17
PAT Margin	(%)	0.09	0.35	0.32
ROCE	(%)	6.61	6.98	21.23
Total Debt/Tangible Net Worth	Times	1.68	1.48	1.83
PBDIT/Interest	Times	1.51	1.42	1.42
Total Debt/PBDIT	Times	7.08	5.79	4.93
Gross Current Assets (Days)	Days	236	196	75

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>
- Consolidation Of Companies - <https://www.smerra.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
24-Feb-2018	Cash Credit	Long Term	6.00	SMERA BB- (Issuer not co-operating)
05-Dec-2016	Cash Credit	Long Term	6.00	SMERA BB- / Stable (Reaffirmed)
08-Sep-2015	Cash Credit	Long Term	6.00	SMERA BB- / Stable (Assigned)

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+ / Stable (Downgraded from SMERA BB-/Stable)

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ABOUT SMERA

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