



SMERA RATINGS LIMITED

Menaka Mills Private Limited (MMPL)

**Rating
Rationale**
February 22, 2016

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	2.50	SMERA BBB-/Stable (Assigned)
Term Loan	1.00	SMERA BBB-/Stable (Assigned)
Post-shipment Credit	3.75	SMERA A3 (Assigned)
Bill Purchase/Discounting	4.75	SMERA A3 (Assigned)

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) to the Rs.12.00 crore bank facilities of Menaka Mills Private Limited (MMPL). The outlook is '**Stable**'. The ratings derive comfort from the experienced management and above average financial risk profile marked by healthy interest coverage ratio. The ratings also draw support from the comfortable net worth, healthy net cash accruals, increasing operating margins and established distribution network. However, the ratings are constrained by forex fluctuation risk, moderate scale of operations and customer concentration risk.

Rating Sensitivity Factors

- Efficient working capital management
- Sustaining growth while achieving stable margins
- Diversion of funds to related parties

MMPL was established in 1997 by Mr. Ramasamy Manivannan, Managing Director, with more than three decades of experience in weaving and finishing of fabric. The company is engaged in the business of weaving and finishing anti-skid socks, fleece blankets and microfilament polar fleece. The company sells its finished products to distributors of healthcare products in USA.

MMPL has an above average financial risk profile marked by low gearing and high interest coverage ratio. The financial risk profile also incorporates healthy networth of Rs.22.38 crore as on March, 2015.

MMPL has comfortable liquidity position marked by healthy net cash accruals as on March 31, 2015 as against substantially low annual principle repayment. The average utilisation of company's working capital limits is ~80 per cent for cash credit, ~32.51 per cent packing credit and ~ 5.15 per cent for Foreign Outward Bills Payment (FOBP).

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The revenues of MMPL have grown at a CAGR of 42 per cent in FY2013 to FY2015. Revenues stood at Rs.46.90 crore in FY2013-14 and Rs.61.01 crore in FY2014-15. With increase in revenues the company has been able to maintain its profit margins with EBIDTA at ~18 per cent and PAT at ~9 per cent. As per nine months results the company registered healthy increase in revenues with stability in profit margins. The company has registered a sale of Rs. 52.25 crore from April to December 2015 with EBIDTA margin of 18.06 per cent.

While the ratings are constrained by forex fluctuation risk as exports constitute over 80 per cent of sales, the company has necessary hedging mechanism in place to tackle the same. The company's current operations are on a moderate scale however, in future, the company plans to export readymade garments also. Since the company's top three customers contribute ~71.28 per cent of the total revenues for FY2014-15, exposure to customer concentration risk is high. However, the company has relations of over 15 years with these customers and hence the risk is mitigated.

Outlook: Stable

SMERA believes that MMPL will maintain a stable business risk profile owing to the experienced management. The outlook may be revised to 'Positive' in case the company registers substantial revenue growth, improvement in profitability and efficient management of working capital cycle. Conversely, the outlook may be revised to 'Negative' if it registers more than expected decline in profitability or the financial risk profile deteriorates significantly.

About the Company

A Tamil Nadu-based company, MMPL, incorporated in 1997 is engaged in the weaving of anti-skid socks, woven blankets and microfilament polar fleece. The company is headed by the Directors, Vankipuram Srinivasan, Ramasamy Manivannan, Ramanujam Manivannan and others. The manufacturing facility of MMPL is located at Madurai.

MMPL reported profit after tax (PAT) of Rs.5.60 crore on operating income of Rs.61.01 crore for FY2014-15, as compared with PAT of Rs.4.31 crore on operating income of Rs.46.90 crore in FY2013-14.

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