

## Press Release

**Menaka Mills Private Limited**

September 04, 2018



**Rating Reaffirmed**

<b>Total Bank Facilities Rated*</b>	Rs. 12.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB-/Negative (Rating Reaffirmed and Outlook revised to Negative)
<b>Short Term Rating</b>	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 12.00 crore bank facilities of Menaka Mills Private Limited (MMPL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuité has revised the outlook to 'Negative' from 'Stable' on account of slower than expected growth in revenues, continuous decline in profit margins and decline in net cash accruals vis-à-vis the initial expectation. This is likely to continue over the near to medium term. Any further slowdown in the profitability due to further decline in the scale of operations or pricing pressures along with any further decline in net cash accruals could result in downward revision of the rating. Conversely, any significant and sustainable improvement in the scale of operations and profitability would entail a revision of outlook to Stable.

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.

### Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MMPL to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management**

MMPL was established in 1997 by Mr. Ramasamy Manivannan who is currently the Managing Director of MMPL with more than three decade of experience in the weaving and finished textiles industry. Mr. Laxman Narayan (Director) joined the company four years back and handles the administration of the company.

- **Moderate financial risk profile**

MMPL has moderate financial risk profile marked by tangible net worth of Rs.31.49 crore as on 31 March, 2018 and Rs.28.11 crore as on 31 March, 2017 as against Rs.24.63 crore as on 31 March, 2016. It includes accrued reserves of Rs.29.37 crore as on 31 March, 2018. The gearing stood low at 0.24 times as on 31 March, 2018 and 0.27 times as on 31 March, 2017 as against 0.32 times as on 31 March, 2016. The debt of Rs.7.54 crore mainly consists of term loans of Rs.3.57 crore and working capital borrowings of Rs.3.97 crore as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 9.15 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 2.65 times in FY2018 as against 2.82 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.43

times as on 31 March, 2018. The financial risk profile is expected to remain moderate, notwithstanding debt funded capex plans of the company.

### Weaknesses

- **Moderate scale of operations and declining operating margins**

MMPL has moderate scale of operations marked by revenue of Rs.78.13 crore in FY2018 and Rs.74.36 crore in FY2017 as against Rs.69.85 in FY2016. However, the operating margins have declined from 18.65 percent in FY2016 to 14.30 percent in FY2017 and further deteriorated to 11.42 percent in FY2018 due to stiff competition faced.

- **Foreign exchange fluctuation risk**

The company is engaged in the export of anti-skid socks and fleece blankets to USA. Out of total revenue of Rs.73.31 crore in FY2018, ~72.00 percent is from exports. However, the company hedges in the form of Forward Contracts.

- **Highly competitive industry**

The weaving and finishing of textile industry is competitive in south India due to the presence of raw material (cotton) and ready market for export of finished goods. MMPL's manufacturing facility is located at Theni (Tamil Nadu) with intense competition from weavers situated in and around Madurai region and profitability is susceptible to changes in raw material prices.

### Outlook: Negative

Acuité believes that the outlook of MMPL will remain 'Negative' over the medium term due to continuous strain in operating revenues and margins. The rating may be downgraded in case the firm exhibits lower than expected revenues and margins causing further decline in accruals. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in revenues and accruals resulting in stable business risk profile.

### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	78.13	74.36	69.85
EBITDA	Rs. Cr.	8.92	10.64	13.02
PAT	Rs. Cr.	3.65	3.73	5.81
EBITDA Margin	(%)	11.42	14.30	18.65
PAT Margin	(%)	4.67	5.02	8.32
ROCE	(%)	16.99	21.20	31.51
Total Debt/Tangible Net Worth	Times	0.24	0.27	0.48
PBDIT/Interest	Times	9.15	5.78	11.16
Total Debt/PBDIT	Times	0.84	0.72	0.90
Gross Current Assets (Days)	Days	100	97	111

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Sep-2017	Cash Credit	Long Term	3.50	ACUITE BBB- / Stable (Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	2.00	ACUITE BBB- / Stable (Reaffirmed)
22-Feb-2016	Cash Credit	Long Term	2.50	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BBB- / Stable (Assigned)
	Post Shipment Credit	Short Term	3.75	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	4.75	ACUITE A3 (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB-/Negative (Rating Reaffirmed and outlook revised)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3 (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Negative (Rating Reaffirmed and outlook revised)

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