

Press Release

Menaka Mills Private Limited

November 21, 2019



Rating Reaffirmed, Assigned and Withdrawn; Outlook revised

Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Rating Reaffirmed; Outlook revised to Stable)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned 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triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to Rs. 12.00 Crore, it has also withdrawn the rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on Rs. 2.00 Crore bank facilities of Menaka Mills Private Limited (MMPL). The outlook is revised to '**Stable**'.

Acuité had earlier revised the outlook on the ratings from 'Stable' to 'Negative' vide its press release dated September 04, 2018. The revision in outlook from 'Stable' to 'Negative' was driven mainly by the decline in operating margins, slower than expected growth in margins vis-à-vis initial expectations. Based on the latest operational and financial updates shared by MMPL, MMPL has shown growth in revenues while also improving its operating parameters. The company is also in midst of a forward integration project and will be entering readymade garments (RMG) segment. Based on Acuité interactions with the management, it believes that, the company will benefit from this forward integration project to increase its revenues and improve its operating performance and has revised the outlook from 'Negative' to 'Stable'.

Theni, Tamil Nadu based MMPL was established in 1997 by Mr. Ramasamy Manivannan, Managing Director, with over three decades of experience in weaving and finishing of fabric. The company is engaged in the business of weaving and finishing of anti-skid socks, fleece blankets and microfilament polar fleece. The company derives over 70 percent of its revenues through exports to distributors of healthcare products in USA.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations and experienced management

MMPL was established in the year 1997 by Mr. Ramasamy Manivannan who is promoter and Managing Director of MMPL has over three decade of experience in textile industry. Mr. Ramasamy Manivannan holds B.Sc. Physics and M.Sc. Psychology degrees. Mr. Laxman Narayan, Director, joined the operations of the company around seven years back and holds a Master's in Business Administration degree. The extensive experience of the promoter is reflected through the established relationship with its customers and suppliers. The company has over a decades relationships with some of its key customers which include reputed names like LSL Industries Inc, USA, John Horsfall & Sons Ltd, amongst others. On the back of the stable and repeat orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about 11 per cent over the past four years through FY2019 at Rs.89.33 crores in FY2019. The company is also a nominated supplier for Decathlon, and is in the process of leveraging its relationship with them to enter the RMG space. Acuité believes the company will benefit from its experienced management, established track record with customers.

Moderate financial risk profile

MMPL has moderate financial risk profile marked by tangible net worth of Rs. 36.92 crore as on 31 March, 2019 and Rs. 31.49 crore as on 31 March 2018, its gearing stood healthy at 0.21 times as on 31 March, 2019 and 0.24 times as on 31 March, 2018. The debt of Rs. 7.64 crore mainly consists of term loans of Rs. 6.17 crore and working capital borrowings of Rs. 1.47 crore as on 31 March 2019. Interest Coverage Ratio (ICR) stood at 12.92 times for FY2019. Debt Service Coverage Ratio (DSCR) stood at 5.04 times for FY 2019 as against 2.65 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.38 times as on 31 March, 2019. The company is in midst of expanding and modernising its units. The quantum of capex is ~Rs. 8 Cr., which will be mainly funded by term loans amounting to Rs. 5.5 Cr. and the remaining through internal accruals.

Acuite expects the financial risk profile to remain at the same level, over the near to medium term, inspite of debt funded capex plans.

Weaknesses

Susceptible to volatility in raw material prices and foreign exchange fluctuation risk

The main raw material purchased by the company is Polyester yarn, the prices of which is correlated with petrochemical prices, hence susceptible to high level of fluctuations in raw material prices. This impacts the operating margins of the company as witnessed in the past. The operating margins of the MMPL declined from 18.65 percent in FY2016 to 14.30 percent in FY2017, 11.42 percent in FY2018 and 13.99 percent in FY2019. The company is also exposed to exchange rate fluctuation risk since more than 75 percent of its income is derived from exports to USA. Foreign exchange risk is partially mitigated through Forward Contracts entered by the company.

Acuite believes that the business profile of MMPL will continue to be susceptible to key risks inherent to the industry, the ability of MMPL to increase its operations while maintaining its margins will be a key rating sensitivity.

Rating Sensitivities

- Decline in operating revenues
- Deterioration in operating margins
- Deterioration in financial risk profile
- Timely execution and implementation of project

Material Covenants

None

Liquidity Position: Adequate

The net cash accruals stood at Rs.9.13 crore for FY2019 against debt repayment of ~Rs.1.66 crore. The net cash accruals are expected to remain in the range of Rs. 9.0-15.0 crore over the near to medium term against repayment obligations of ~Rs. 2.0-3.0 crore. The company's Gross Current Assets (GCA) days stood at 109 for FY2019 and its current ratio stood at 2.57 times.

Outlook: Stable

Acuite believes that MMPL will maintain a 'Stable' outlook and continue to benefit over the medium term owing to the extensive experience of the promoters and established track record of operations. The outlook may be revised to 'Positive', if the group achieves significant growth in revenue while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins and significant deterioration in the working capital management.

About the Rated Entity - Key Financials

	Unit	FY19	FY18	FY17
Operating Income	Rs. Cr.	89.33	78.13	74.36
EBITDA	Rs. Cr.	12.50	8.92	10.64

PAT	Rs. Cr.	5.68	3.65	3.73
EBITDA Margin	(%)	13.99	11.42	14.30
PAT Margin	(%)	6.36	4.67	5.02
ROCE	(%)	22.83	16.99	21.20
Total Debt/Tangible Net Worth	Times	0.21	0.24	0.27
PBDIT/Interest	Times	12.92	9.15	5.78
Total Debt/PBDIT	Times	0.38	0.43	0.44
Gross Current Assets (Days)	Days	109	100	97

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

Not Applicable

Any other information

Not Applicable

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. Crore)	Ratings/Outlook
04-September-2018	Cash Credit	Long Term	3.50	ACUITE BBB-/Negative (Rating Reaffirmed and Outlook Revised)
	Post Shipment Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loans	Long Term	2.00	ACUITE BBB-/Negative (Rating Reaffirmed; Outlook Revised)
28-September-2017	Cash Credit	Long Term	3.50	ACUITE BBB-/Stable (Rating Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bills Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loans	Long Term	2.00	ACUITE BBB-/Stable (Rating Reaffirmed)
22- February-2016	Cash Credit	Long Term	2.50	ACUITE BBB-/Stable (Assigned)

	Post Shipment Credit	Short Term	3.75	ACUITE A3 (Assigned)
	Bills Discounting	Short Term	2.00	ACUITE A3 (Assigned)
	Term Loans	Long Term	1.00	ACUITE BBB-/Stable (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	4.00* (Enhanced from Rs. 3.50 Cr.)	ACUITE BBB-/Stable (Rating Reaffirmed; Outlook revised to Stable)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	6.00# (Enhanced from Rs. 4.50 Cr.)	ACUITE A3 (Reaffirmation)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.40 (Reduced from Rs. 2.00 Cr.)	ACUITE BBB-/Stable (Rating Reaffirmed; Outlook revised to Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE BBB-/Stable (Assigned)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Withdrawn)

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About Acuité Ratings & Research:

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