

Press Release

Menaka Mills Private Limited

February 08, 2021

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.12.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the reaffirmed the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.11.21 crore bank facilities of Menaka Mills Private Limited (MMPL). The outlook is '**Stable**'.

Also, Acuité has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.0.79 crore of MMPL. The outlook is '**Stable**'.

About the company

Tamil Nadu based Menaka Mills Private Limited (MMPL) incorporated in the year 1997 by Ramasamy Manivannan, Ramanujam Suganthi Manivannan and Ramasamy Manivannan Lakshman Narayan. It is engaged in manufacturing of mainly Anti-skid Socks, Woven Blanket & Microfilament polar Fleece. It has an integrated manufacturing facility for wide width knitting, dyeing, processing and finishing of Polar fleece Fabric, Blankets & Garments. MMPL has been a nominated supplier of fabrics for Decathlon, jockey, H&M in the past, the company is adding a new product line and will be entering the RMG sector for sportswear and jackets mainly supplying to the above mentioned clients as well as exporting to other countries. Around 60 percent of the revenues are generated through exports.

Rationale for Rating Reaffirmation

The rating reaffirmation on the bank facilities of MMPL factors in its established track record of operations, experienced management, improving scale of operations, satisfactory profitability margins and moderate financial risk profile. These rating strengths are partially offset by its moderate working capital management susceptibility to fluctuation in raw material prices and foreign exchange fluctuation risk.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations, experienced management and improving scale of operations

MMPL incorporated in 1997 and promoted by Mr. Ramasamy Manivannan, Ramanujam Suganthi Manivannan and Ramasamy Manivannan Lakshman Narayan. Mr. Ramasamy Manivannan is Managing Director of the company, who has more than 3 decades of experience in the textile industry. The promoters' extensive experience and long track record have helped the company in building established relations with its customers and suppliers over the years. The aforesaid factors have helped the company in improving its revenues from Rs.78.13 Cr in FY2018 to Rs.89.33 Cr in FY2019 and Rs.105.89 Cr in FY2020. The improvement in revenue is on account of continuous orders from the existing clients, addition of new clients and capex done in the last two years. MMPL generated revenue of Rs.74.19 Cr for 9M of FY2021 until December 2020.

Acuité believes that MMPL will continue to benefit from its experienced management over the medium term.

- **Satisfactory profitability margins albeit fluctuating**

The profitability margins of the company have been marginally fluctuating over the period although remained satisfactory. EBITDA margin stood at 11.42 percent in FY2018, 13.99 percent in FY2019 and 10.16 percent in FY2020. EBITDA margin in FY2020 has declined owing to increase in employee expenses. The company has done capex in the last two years w.r.to fabric fleecing, dyeing machineries and accordingly ETP structure has changed. So, with regarding to it the employee cost has increased. This has led to decline in EBITDA margin in FY2020. PAT margins stood at 4.67 percent in FY2018, 6.36 percent in FY2019 and 3.78 percent in FY2020. The decline in PAT margins in FY2020 on account of drop in EBITDA margin and increase in depreciation and interest expense. Moreover, MMPL didn't achieve the estimated EBITDA margin and PAT margin of 13.99 percent and 6.36 percent in FY2020 respectively.

- **Moderate financial risk profile**

The financial risk profile of the MMPL stood moderate with moderate capital structure and debt protection metrics. Networth stood at Rs.40.67 Cr and Rs.36.92 Cr as on March 31, 2020 and 2019 respectively. Gearing stood at 0.29 times and 0.21 times as on March 31, 2020 and 2019 respectively. Gearing deteriorated marginally on account of increase in debt levels. Debt protection metrics Interest Coverage Ratio stood at 10.01 times and 12.92 times in FY2020 and FY2019 respectively. Debt Service Coverage Ratio stood at 3.60 times and 5.04 times as on March 31, 2020 and 2019 respectively. The decline in Debt protection metrics is on account of increase in debt levels which led to increase in interest expense marginally and decline in EBITDA in absolute terms. TOL/TNW stood at 0.58 times and 0.38 times as on March 31, 2020 and 2019 respectively.

Acuite believes that the financial profile of the MMPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves.

Weaknesses

- **Moderate working capital management**

The working capital management of MMPL remained moderate, evident from its GCA days of 115 days as on March 31, 2020 as against 109 days in FY2019. The inventory days stood at 57 days and 55 days as on March 31, 2020 and 2019, respectively. Usually, the company offers 1-2 months of credit period to its customers. The debtor days stood at 19 days and 33 days as on March 31, 2020 and 2019, respectively. The bank lines remained utilized around 50 percent for the last six months ended December 2020. Acuite believes that MMPL's working capital cycle will remain moderate over the medium term.

- **High project risk**

MMPL is planning to go for a capex plan of Rs.20.00 Cr for setting up of Readymade garments unit. The company is planning to fund through Rs.5.00 Cr from promoters contribution and Rs.15.00 Cr from Bank Loan. This capex is estimated to take up in 2 phases, where 1st phase will start from April 2021 and estimated to be completed by December 2021. Phase 2 planned for FY2023. Through this capex the company will be able to cater to Ready-made garments segment and will be able supply to Decathlon, Jockey, H&M and other clients. The proposal has put forward with the banker; this will be taken up in the next financial year.

- **Susceptibility to fluctuation 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. The company is also exposed to exchange rate fluctuation risk since more than 60 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

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity
- Timely execution and implementation of the project

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate and remained in the range of Rs.6.54-9.13 Cr through FY2018-2020 against the repayment obligation of Rs.1.03-1.81 Cr. The NCA's are expected to be in the range of Rs.8.00-13.00 Cr through FY21-23 against the repayment obligation of Rs.3.40-3.80 Cr for the same period. The current ratio stood at 2.11 times as on March 31, 2020. The cash and bank balance stood at Rs.4.91 Cr as on March 31, 2020. The working capital limits are 50 percent utilized for the last six months ended in December 2020. Acuite believes that the liquidity profile continues to be adequate, supported by accruals and moderate working capital management.

Outlook: Stable

Acuite believes that MMPL will continue to benefit over the medium term due to its experienced management and established relationships with its suppliers and customers. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case MMPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	105.89	89.33
PAT	Rs. Cr.	4.00	5.68
PAT Margin	(%)	3.78	6.36
Total Debt/Tangible Net Worth	Times	0.29	0.21
PBDIT/Interest	Times	10.01	12.92

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

None

Any Material Covenants

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
21-Nov-19	Cash Credit	Long Term	4.00	ACUITE BBB-/ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	6.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.40	ACUITE BBB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.60	ACUITE BBB-/ Stable (Assigned)
	Bill Discounting	Short Term	2.00	ACUITE A3 (Withdrawn)
04-Sept-18	Cash Credit	Long Term	3.50	ACUITE BBB-/ Negative (Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bill Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loans	Long Term	2.00	ACUITE BBB-/ Negative (Reaffirmed)
28-Sept-17	Cash Credit	Long Term	3.50	ACUITE BBB-/ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	4.50	ACUITE A3 (Reaffirmed)
	Bill Discounting	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loans	Long Term	2.00	ACUITE BBB-/ Stable (Reaffirmed)

***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	ACUITE BBB-/ Stable (Reaffirmed)
PCFC	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 (Reaffirmed)
Term Loan	Nov 2019	8.00	July 2025	1.21	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan	June 2019	8.00	Feb 2025	0.79	ACUITE BBB-/ Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE BBB- (Withdrawn)

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About Acuité Ratings & Research:

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