

Press Release

Maris Spinners Limited (MSL)

May 23, 2017

Rating Upgraded

Total Bank Facilities Rated	Rs. 50.00 Cr*
Long Term Rating	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating to '**SMERA BB+** (read as SMERA double B plus) from 'SMERA BB' (read as SMERA double B) and reaffirmed short term rating of '**SMERA A4+** (read as SMERA A four plus) on the Rs. 40.17 crore bank facilities and assigned long term rating of **SMERA BB+ (read as SMERA double B plus)** on Rs. 9.83 crore of Maris Spinners Limited (MSL). The outlook is '**Stable**'. Further, SMERA has withdrawn rating from Rs. 1.18 crore of bank facilities since the same has been fully repaid as certified by the banker.

MSL was originally incorporated in 1979 and became a deemed public limited company from July 1994. The company has its manufacturing unit at Mysore district, Karnataka and Tiruchirappalli district, Tamil Nadu. MSL has an installed capacity of 49,536 spindles and predominantly manufactures 100 per cent cotton combed yarn of count 40's and 60's.

List of key rating drivers and their detailed description:

Strengths:

Experienced management and established track record of operations: MSL is promoted by Mr. Mariyapillai Rengaswamy with more than three decade experience in the textile industry. The company was incorporated on September 18, 1979 and commenced production in 1981, initially with an installed capacity of 11,856 spindles which has gradually expanded to the current 49,536 spindles at both its plants i.e. in Karnataka and Tamil Nadu. MSL has a competent management supported by a team of well qualified and experienced second line personnel.

Healthy financial risk profile: The financial risk profile of MSL is healthy marked by Interest coverage ratio (ICR) of 2.64 times in FY2015-16. DSCR has improved from 1.19 times in FY2014-15 to 1.23 times in FY2015-16. However, the company's gearing levels continues to remain high at 2.34 times as on March 31, 2016 as against 2.76 times as on March 31, 2015. MSL has been generating net cash accruals in the range of Rs.7.50 - Rs.8.00 crore every year. The company has term debt obligations of around Rs.5.00 crore per annum. NCA/TD is healthy at 0.17 times in FY2016. Thus, SMERA believes that MSL is comfortably placed to meet its term debt obligations.

Diversified customer profile

By virtue of its long existence in the same line of business supplemented by the extensive experience of the promoters, MSL has established a healthy relationship with its clients. For FY2016-17, top ten customers of the company contributed ~32 per cent of total revenues as compared to ~30 per cent in FY2015-16.

Benefit of captive Power plant

MSL has set up wind turbine generators in the Devangere district in Karnataka with an installed capacity of about 2.1 megawatts which supplements its energy requirement. The power plant has been contributing about 40 per cent to its power requirement which translates to savings of around Rs. 2 crore per annum.

Weakness

Uneven operating revenues and margins: MSL registered an operating income of Rs. 106.84 crore in FY 2016 as against Rs. 121.92 crore of FY 2015. The decline in operating income was majorly due to the stress in the economy in general and textile industry in particular resulting in subdued demand. SMERA believes that going ahead the revenues are likely to remain under stress. MSL recorded operating income of Rs.82.94 crore during the 9M 2017, marginally above Rs.81.82 crore earned during corresponding period of the previous year. Further, operating margin (EBITDA margin) of MSL stood at 12.85 per cent in FY 2016 marginally below 13.09 per cent in FY2015. This was on account of decrease in realizations.

Working capital intensive nature of business: MSL's operations are working capital intensive as evident from stretched working capital cycle of 131 days in FY2016 (110 days in FY2015). Inventory holding increased from 69 days in FY 2015 to 110 days in FY 2016. The industry is marked by high inventory holding as cotton is generally procured during from the months of October to March to sustain for the entire year.

The company manages its working capital efficiently as evidenced from its cash credit limit utilization of ~63 percent in the last six months ended March 2017.

Margins susceptible to volatility in raw material price: Raw cotton prices are highly volatile in nature and depend largely on factors like area under cultivation, monsoon, crop yield, international demand-supply and pricing and inventory carry forward of the previous year. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. Further, the company operates in a highly competitive and fragmented cotton industry with several organized and unorganized players operating in the same industry.

Analytical approach: SMERA has considered the standalone business and financial risk profile of MSL to arrive at the ratings.

Applicable Criteria

- Manufacturing Entities <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook - Stable

SMERA believes that MSL will continue to benefit over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the company reports increased operating revenues, sustain its cash accruals thus leading to steady improvement in its liquidity and capital structure. Conversely, the outlook may be revised to 'Negative' if MSL undertakes a large debt-funded capital expenditure programme, or if its revenue and cash accruals decline, leading to deterioration in its financial risk profile.

About the Rated Entity – Key Financials

For FY2015-16, MSL reported profit after tax (PAT) of Rs.3.18 cr on operating income of Rs.106.84 cr as compared with PAT of Rs. 3.31 cr on operating income of Rs. 121.92 cr for FY2014-15. The networth for FY2015-16 stood at Rs. 19.82 cr as compared to Rs. 17.59 cr in FY2014-15.

Status of non-cooperation with previous CRA: Not Applicable

Rating History for the last three years:

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Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
March 08, 2016	Cash Credit	Long term	23.20	SMERA BB/Stable (Assigned)
	Cash Credit (Proposed)	Long term	2.88	SMERA BB/Stable (Assigned)
	WCDL	Long term	3.30	SMERA BB/Stable (Assigned)
	FDDBP	Long term	4.50	SMERA BB/Stable (Assigned)
	Term Loan	Long term	14.62	SMERA BB/Stable (Assigned)
	Bank Guarantee	Long term	0.50	SMERA A4+ (Assigned)
	Letter of Credit	Short term	1.00	SMERA A4+ (Assigned)

Annexure - Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	NA	NA	NA	23.20	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Foreign Bill Discounting	NA	NA	NA	4.50	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term Loan I	NA	NA	NA	-	SMERA BB+/Stable (Withdrawn)
Term Loan II	NA	NA	December 2017	0.81	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term Loan III	NA	NA	June 2019	3.03	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term Loan IV	NA	NA	December 2019	2.66	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term Loan V	NA	NA	May 2017	0.45	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term Loan VI	NA	NA	October 2020	3.83	SMERA BB+/Stable (Assigned)
Term Loan VII	NA	NA	May 2019	0.67	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Working Capital Demand Loan I	NA	NA	NA	3.30	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)

Working Capital Demand Loan II	NA	NA	NA	6.00	SMERA BB+/Stable (Assigned)
Working Capital Demand Loan III	NA	NA	NA	-	SMERA BB+/Stable (Withdrawn)
Letter of Credit	NA	NA	NA	0.50	SMERA A4+ (Reaffirmed)
Bank Guarantee	NA	NA	NA	1.05	SMERA A4+ (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smerra.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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