

Press Release

Maris Spinners Limited

August 24, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 50.00 crore
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.50.00 crore bank facilities of Maris Spinners Limited (MSL). The outlook is '**Stable**'.

The reaffirmation of the rating reflects improving financial risk profile as reflected in improvement of gearing (debt-to-equity), healthy cash accruals vis-à-vis repayment obligations, moderate bank line utilisation and no major capex envisaged over the medium term. Gearing has improved from 2.09 times in FY2017 to 1.60 times in FY2018. The total outside liabilities to total net worth (TOL/TNW) has improved from 3.12 times to 2.95 times. The company has reported cash accruals of Rs.6.00 crore in FY2018, though a decline from Rs.7.70 crore in FY2017. However, the same is expected to improve to about Rs.7.00-8.00 crore against which the maturing obligations are about Rs.4.00 crore over the medium term thus giving adequate financial flexibility. Further, its bank lines are moderately utilised at about 56 percent during October 2017-July 2018. The ratings continue to reflect the experienced management and established track record of operations while constrained by working capital intensive operations and susceptibility of margins to volatile raw material prices.

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 in Karnataka and Tiruchirappali district in Tamil Nadu. MSL has an installed capacity of 49,536 spindles and predominantly manufactures 100 percent cotton combed yarn of count 40's and 60's. The company is listed in Bombay Stock Exchange (BSE).

Analytical Approach

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

Key Rating Drivers

Strengths:

- **Experienced management and established track record of operations**

MSL is promoted by Mr. Mariyapillai Rengaswamy with more than three decades of experience in the textile industry. The company was incorporated in September 18, 1979 and commenced production in 1981, initially with an installed capacity of 11,856 spindles which was gradually expanded to the present total capacity of 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. The promoter's experience in textile industry has helped the company build healthy relationship with its suppliers and customers, to ensure a steady raw material

supply and large offtake. For FY2018, top ten customers of the company contributed ~26 percent of total revenues as compared to ~31 percent in FY17. Despite the volatility in cotton prices and cotton yarn and increasing competition, the company's scale of operations remain moderate. The company has shown moderate growth in revenue from Rs.107.21 crore in FY2016 to Rs.124.96 crore in FY2018. MSL has booked revenues of Rs.31.79 crore in Q1 of FY2019. Acuite believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

- **Moderate financial risk profile**

MSL's financial risk profile is marked by moderate debt protection metrics and capital structure. The gearing has been improving from 2.34 times as on March, 2016 to 1.60 times as on March, 2018 due to lower reliance on bank lines and repayment of its term loans. Net worth has remained moderate at Rs.22.56 crore due to low EBITDA margins underpinning lower accretion to reserves. MSL's moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.17 times and 2.17 times in FY2018 vis-à-vis 0.16 times and 2.70 times in FY2017, respectively. It is lower due to lower than estimated NCAs. The cash accruals are Rs.6.00 crore in FY2018 and expecting to generate cash accruals of about Rs.8.00 crore over the medium term, against the repayment obligations of about Rs.4.00 crore in FY2019 and FY2020; which leads to expected improvement in its financial risk profile over the medium term.

- **Benefit of captive power plant**

MSL has set up wind turbine generators at Devangere district in Karnataka with an installed capacity of about 2.1 megawatts which supplements its energy requirement. The power plant has been supporting about 40 percent of its power requirement which translates to savings of around Rs. 2.00 crore per annum.

Weaknesses:

- **Working capital intensive nature of operations**

MSL's operations are capital intensive with Gross Current Assets (GCA) of about 172 days in FY2018. The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 5-6 months until the start of the next season; it is reflective in terms of its inventory days of 110-125 days over the last three years ending March, 2018. MSL procures cotton in February and March of every year, basis the price movement and availability of cotton for domestic use. MSL sells to garment manufacturers and traders and dealer across Tamil Nadu and Maharashtra against credit period of around 30-50 days. No particular customer contributes of more than 5-10 percent to the revenue, thereby leading to low customer concentration risk and healthy receivable cycle. MSL's approach of purchases through LC mechanism and prudent realisation of debtors supported in moderate utilisation of its bank lines at about 56 percent during October 2017 – July 2018. MSL procures from ginners, farmers and traders against letter of credit (LC) of 120 days and discounts the bills. Acuite believes that inventory risk is high as it holds inventory for the 5-6 months thereby exposing MSL to the risk of negative impact in its operating margins in case of any significant fall in cotton prices.

- **Marginal increase in topline in FY2018 remains moderate**

MSL's revenue remained moderate at Rs.124.96 crore in FY2018; a year-on-year growth of 4 percent due to increase in its capacity utilisation levels and miniscule rise in cotton yarn realisations. Revenue has shown steady growth over the last three years from Rs.107.21 crore in FY2016 to Rs.124.96 crore in FY2018. The growth has remained modest due to capacity being already utilised

at optimum levels. Capacity utilisation was at 93 percent in FY2018 vis-à-vis 90 percent in FY2017. The average sales realisation of cotton yarn (40s and 60s count) increased by 3 percent from Rs.245 per Kg in FY2017 to Rs.252 per Kg in FY2018. Acuite believes that revenue growth would continue to remain modest over the medium term until any modernisation or enhancement in capacity is undertaken.

- Declining EBITDA margins and margins susceptible to volatility in raw material price**

EBITDA margins have been declining over the last three years from 13.15 percent in FY2016 to 8.54 percent in FY2018. This is due to sharp increase in cotton prices and lower realisations of cotton yarn along with MSL's policy of high inventory holding. Average price of cotton procured has been rising from Rs.100 per kg in FY2016 to Rs.124.7 per kg in FY2018 for MSL; a 24 percent hike in 3 years ending March, 2018 vis-à-vis rise in yarn realisations has been increasing from Rs.232.9 per kg to Rs.252.2 per kg over the same period; a mere 8 percent increase. Raw cotton prices are highly volatile in nature and depends 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 organised and unorganised players operating in the same industry. Acuite believes that MSL's EBITDA margins would remain susceptible to raw material price volatility and high inventory holding levels over the medium term.

Outlook:

Acuite believes that MSL will maintain a 'Stable' outlook over the medium term from its promoter's 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' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	124.96	120.52	107.21
EBITDA	Rs. Cr.	10.67	12.79	14.10
PAT	Rs. Cr.	1.03	2.65	3.18
EBITDA Margin	(%)	8.54	10.61	13.15
PAT Margin	(%)	0.83	2.20	2.97
ROCE	(%)	8.68	11.06	27.36
Total Debt/Tangible Net Worth	Times	1.60	2.09	2.34
PBDIT/Interest	Times	2.17	2.70	2.64
Total Debt/PBDIT	Times	3.38	3.68	3.25
Gross Current Assets (Days)	Days	172	165	166

Status of non-cooperation with previous CRA:

Not Available

Any other information:

Not Available

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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
23-May-2017	Cash Credit	Long term	23.20	ACUITE BB+/Stable (Upgraded)
	Foreign Bill Discounting	Long term	4.50	ACUITE BB+/Stable (Upgraded)
	Term Loans	Long term	11.45	ACUITE BB+/Stable (Upgraded)
	Working Capital Demand Loan	Short term	9.30	ACUITE BB+/Stable (Upgraded)
	Bank Guarantee	Short term	1.05	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short term	0.50	ACUITE A4+ (Reaffirmed)
08-March-2016	Cash Credit	Long term	23.20	ACUITE BB/Stable (Assigned)
	Cash Credit (Proposed)	Long term	2.88	ACUITE BB/Stable (Assigned)
	Foreign Bill Discounting	Long term	4.50	ACUITE BB/Stable (Assigned)
	Term Loans	Long term	14.62	ACUITE BB/Stable (Assigned)
	Working Capital Demand Loan	Long term	3.30	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short term	0.50	ACUITE A4+ (Assigned)
	Letter of Credit	Short term	1.00	ACUITE A4+ (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	23.20	ACUITE BB+/Stable (Reaffirmed)
Foreign Bill Discounting	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+/Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	3.30	ACUITE BB+/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Rating Operations Tel: 040-40042327 srihari.adari@acuitem.in</p> <p>Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40045487 neha.agarwal@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuitem.in</p>

About Acuite Ratings & Research:

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