Press Release

Maris Spinners Limited

October 01, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-' (read as ACUITE triple B minus)** from **ACUITE BB+/Stable (read as ACUITE double B plus)** and short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four)** on the Rs. 50.00 crore bank facilities of MARIS SPINNERS LIMITED. The outlook is **'Stable'**.

The upgrade factors in sustained growth in revenues, while maintaining the profitability and improving its capital structure. The rating also factors in experienced management and moderate financial risk profile. However, the rating continuous to be constrained by working capital intensive operations, susceptibility of profitability due to raw material price fluctuation risks.

Maris Spinners Limited (MSL) was originally incorporated in 1979 and became a public limited company from July 1994. The company is engaged in manufacturing of cotton yarn, its manufacturing unit located at Mysore district in Karnataka and Tiruchirappali district in 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. The company is listed on Bombay Stock Exchange (BSE).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long standing operations**

  MSL is promoted by Mr. Anand 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; also, its customer base is wide with no significant revenue concentration; for FY2019, top ten customers of the company contributed ~34 per cent of total revenues as compared to ~26 per cent in FY18. Despite the volatility in cotton prices and cotton yarn and increasing competition, the company's scale of operations remain moderate and improving year-over-year. The company has shown moderate growth in revenue from Rs.107.21 crore in FY2016 to Rs.132.43 crore in FY2019. MSL has booked revenues of Rs. 31.45 crore in Q1 of FY2020. Acuité believes that the promoter's extensive experience in the textile industry would aid the business risk profile of the company over the medium term in improving its business risk profile.

- **Moderate financial risk profile**

  The financial risk profile of the company is moderate marked by moderate gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing and TOL/TNW are moderate at 1.64 and 2.73 times as on 31 March, 2019 as against 1.60 and 2.95 times as on 31 March, 2018. Net worth stood at Rs.24.10 crore as on 31 March, 2019 as against Rs.22.56 crore as on 31 March, 2018. Of the total debt of Rs.39.63 crore as on 31 March, 2019, long term debt stood at Rs. 7.20

crore, unsecured loans of Rs. 3.90 crore and short term debt at Rs. 28.54 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood moderate at 2.32 times and 0.16 times in FY2019 as against 2.13 times and 0.15 times in FY2018. The company reported net cash accruals (NCA) of Rs. 6.28 crore in FY2019 as against Rs. 5.45 crore in FY2018. The company is planning a capital expenditure of about Rs. 7.10 crore in FY2020 in modernizing the machines, which will be majority funded through term loan of Rs. 5.2 crore and remaining through internal accruals. Cash accruals are expected in the range of Rs. 6.5-7.9 crore, against debt obligations of about Rs. 2.0-3.2 crore over the medium term gives adequate cushion for incremental working capital requirements and capex contribution. Acuité believes that with moderate accruals to repayments obligations and moderate debt funded capital expenditure, the financial risk profile is expected to improve marginally 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 13-15 per cent of its power requirement which saves its power costs marginally.

Weaknesses

- **Working capital intensive operations**

  MSL's operations are working capital intensive with Gross Current Assets (GCA) days of about 161 in FY2019 as against 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 4-6 months until the start of the next season; it is reflective in terms of its inventory days of 116-125 days over the last three years ending March, 2019. MSL procures cotton in February and March of every year, basis the price movement and availability of cotton for domestic use. MSL sells yarn to garment manufacturers and traders and dealer across Tamil Nadu and Maharashtra against credit period of around 30-60 days. MSL's approach of purchases through LC mechanism and prudent realisation of debtors supported in moderate utilisation of its bank lines at about 82 per cent during Sep 2018 - July 2019. MSL procures from ginners and traders against letter of credit (LC) of 120 days and discounts the bills. Acuité believes that inventory risk is high as it holds inventory for the 4-6 months, thereby exposing MSL to the risk of negative impact in its operating margins in case of any significant fall in cotton prices.

- **Susceptibility of profitability to volatility in raw material prices**

  The prices of cotton are highly dependent on agro-climatic conditions and the purchase price of cotton depends on the prevailing demand-supply situation, MSL which limits bargaining power with suppliers as well. Acuité believes that MSL should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market and the experienced management.

Rating Sensitivities

- Significant decline in revenues or drop in profitability due to raw material price fluctuations
- High debt funded capex plan leading to deterioration in debt protection indicators.

Material covenants

As stipulated in sanction letter, the TOL/TNW to be maintained below 3.50 times.

Liquidity Position

The liquidity position is adequate marked by adequate cash accruals to repayment obligations though the operations are working capital intensive. It has reported cash accruals of Rs.5.45 crore in FY2018 and Rs.6.28 crore in FY2019. Its expected cash accruals are in the range of Rs.6.5-7.9 crore against the repayment obligations of Rs.2.0-3.2 crore. The working capital cycle is intensive with GCA days of 161 days in FY2019 as against 172 days in FY2018; resulted in moderate utilisation of its limits at 82 per cent over last 11 months through July 2019. Its current ratio is weak at 1.02 times in FY2019. Acuité believes that with moderate accruals and working capital operations, the liquidity profile continues to be adequate over the medium term.

Outlook: Stable

Acuité believes that MSL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience and long track record of operations. The outlook may be revised to 'Positive' if the company reports significant growth in its operating revenues, while sustaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger than expected debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	132.43	124.76	120.52
EBITDA	Rs. Cr.	11.27	10.47	12.79
PAT	Rs. Cr.	2.48	1.04	2.65
EBITDA Margin	(%)	8.51	8.39	10.61
PAT Margin	(%)	1.87	0.83	2.20
ROCE	(%)	10.93	8.68	11.06
Total Debt/Tangible Net Worth	Times	1.64	1.60	2.09
PBDIT/Interest	Times	2.32	2.13	2.70
Total Debt/PBDIT	Times	3.52	3.45	3.68
Gross Current Assets (Days)	Days	161	172	165

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.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
24-Aug-2018	Working Capital Demand Loan	Long Term	3.3	ACUITE BB+ / Stable (Reaffirmed)
	Cash Credit	Long Term	23.2	ACUITE BB+ / Stable (Reaffirmed)
	Bills Discounting	Long Term	4.5	ACUITE BB+ / Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.5	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	2.5	ACUITE BB+ / Stable (Reaffirmed)
	Letter of Credit	Short Term	16	ACUITE A4+ (Reaffirmed)
23-May-2017	Cash Credit	Long Term	23.2	ACUITE BB+ / Stable (Upgraded)
	Bills Discounting	Long Term	4.5	ACUITE BB+ / Stable (Upgraded)
	Term Loan	Long Term	11.45	ACUITE BB+ / Stable

				(Upgraded)
	Working Capital Demand Loan	Long Term	9.3	ACUITE BB+ / Stable (Upgraded)
	Letter of Credit	Short Term	0.5	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	1.05	ACUITE A4+ (Reaffirmed)
08-Mar-2016	Cash Credit	Long Term	23.2	ACUITE BB / Stable (Assigned)
	Proposed Cash Credit	Long Term	2.88	ACUITE BB / Stable (Assigned)
	Working Capital Demand Loan	Long Term	3.3	ACUITE BB / Stable (Assigned)
	Post Shipment Credit	Long Term	4.5	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	14.62	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	0.5	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	1	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	19.00	ACUITE BBB-/Stable (Upgraded)
FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB-/Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.22	ACUITE BBB-/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.98	ACUITE BBB-/Stable (Upgraded)
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	31-May-2019	3.30	ACUITE BBB-/Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB-/Stable (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3 (Upgraded)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Upgraded)

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About Acuité Ratings & Research:

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