



Press Release
MARIS SPINNERS LIMITED
June 19, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	82.50	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	25.50	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	108.00	-	-

Rating Rationale

Acuite has downgraded its long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A3+**' (read as **ACUITE A four plus**) on its Rs.108 Cr bank facilities of Maris Spinners Limited (MSL). The outlook is '**Stable**'.

Rationale for rating downgrade:

The rating is downgraded on account of significant deterioration in operating and financial performance of MSL marked by declining revenue, operating losses deterioration in debt protection metrics and stretched liquidity position.. MSL reported revenue of Rs.149.95Cr during FY23 as against Rs.171.65 Cr in FY22. The operating margins declined to -3.41 percent in FY23 from 18.17 percent in FY2022. driven by surge in input material costs. Furthermore, the company recently completed its capex towards modernisation of its machineries and installation of solar power plants. The projects are partly funded by debt and partly by internal accruals. Consequently, on account of the operating losses and additional debt availed towards the capex, overall gearing and debt protection metrics of the Company has deteriorated significantly in FY2023. The overall gearing rose to 2.09 times as on March 31, 2023 as against 0.91 times as on March 31, 2022. Going forward, the company's ability to recover its scale of operations and profitability levels while maintain its capital structure will be a key rating monitorable.

About the Company

Maris Spinners Limited (MSL) listed on Bombay Stock Exchange (BSE) was originally incorporated as a private limited company on 18th September, 1979. However, from July 1994, the company became a deemed Public Limited Company under the Companies Act, 1956. The company was started by Mr. M Rengaswamy. His son Mr. Anand Rengaswamy is the current Managing Director of the company. The Company commenced commercial production in 1981 with an installed capacity of 11,856 spindles. Factory located in the Mysore district of Karnataka and Tiruchirapalli district of Tamilnadu, MSL's spinning units currently have a combined installed capacity of 49,536 spindles manufacturing 100% cotton combed yarn of counts 30s, 40s & 60s. The company mainly caters to the domestic market. MSL also operates a windmill with a capacity of 2.1 Mega-watts and solar power with a capacity of 3MW, the power generated from the same is used for captive purpose. This accounts for 30% of their

power requirement.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of MSL to arrive at the rating.

Key Rating Drivers

Strengths

Established presence in the textile industry and experienced management

MSL is promoted by Mr. Anandkumar Rengaswamy, Mr. Thangavelu Jayaraman, Mr. Thangavelu Raghuraman, Mr. Sethuraman Kalyanaraman, Mr. Parag Harkishon Udani, Mr. Harigovind, Mr. Adithya Raghuraman, Mr. Ananthakumar Dhamavanthi and Mr. Swaminathan 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. Management have more than 4 decades of experience in spinning industry and with the experience of the management MSL has emerged as a reputed spinning player in south India. The key factors for the success of the company are maintaining consistency in quality of cotton and timely delivery of cotton from the suppliers. 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.

Weaknesses

Deterioration in operating performance

MSL's operating performance deteriorated significantly in FY2023 marked by decline in operating income and operating losses. MSL reported revenue of Rs.149.95Cr during FY23 as against Rs.171.65 Cr in FY22. The operating margins declined to -3.41 percent in FY23 from 18.17 percent in FY2022 driven by surge in input material costs. 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 recently completed its capex towards modernization of existing spindles, increasing spindle capacity in Karnataka plant and installation of solar power of 3MW. The total cost of the project was Rs. 49.12 Cr (funded vide debt of Rs. 33.50 Cr and balance by internal accruals) incurred over the last years ended March 31, 2023. Modernization of spindles is expected to improve the over all productivity in the medium term and establishment of 3MW solar plant combined with existing wind mills capacity of 2.1MW is expected to contribute 30 percent of the power needs of the group, which would aid in improving the operating margins of the company. Acuite believes the company's ability to efficiently use its improved capacities thereby recover its scale of operations and profitability margins would be a key rating monitorable over the medium term.

Moderate intensive working capital operations:

The working capital operations of the company are moderately intensive which is evident from Gross Current Asset (GCA) days of 151 for FY23. Generally, the company maintains inventory for 4 months but during FY23, in order to ensure smooth cash flow the company has reduced their inventory holding period by 30 days (from 123 to 93 days), however the bank limits were highly utilized during the past 12 months. Creditor days were stretched by another 30 days and stood at 107 days against 87 days in FY22. Debtors days stood at 14 days for FY23 against 17 days during Previous year. Current ratio declined to 0.84 times during FY23 against 1.34 times during previous year. Acuite believes further elongation of working capital cycle will remain a key rating sensitivity.

Below-average financial risk profile:

MSL financial risk profile is below average marked by decline in net worth to Rs.30.34Cr as on

March 31, 2023 (Provisional) against Rs.42.32Cr during previous year. Decline in net worth is on account of net loss suffered by MSL during FY23 further leading to deterioration in Gearing levels to 2.09 times. Debt protection metrics have deteriorated significantly for FY23. As the company reported negative EBITDA resulting in decline in Interest coverage ratio (ICR) and Debt Service Coverage Ratio (DSCR) to -0.12 times and -0.06 times respectively as on March 31, 2023. Total outside liabilities to tangible net worth stood at 3.28 times as on March 31, 2023. Debt to EBITDA stood at -12.70 times as on March 31, 2023 against 1.22 times during previous year.

Rating Sensitivities

- MSL's ability to recover its operations and profitability levels.
- Any further elongation in working capital cycle.

Material covenants

None

Liquidity : Stretched

Liquidity position of MSL is stretched on account of insufficient cash accruals against its debt repayment obligations. MSL suffered net loss of Rs.11.20Cr during FY23 as a result NCA's stood at Rs. -5.78Cr for the same period. Working capital changes helped to repay the debt obligations timely. As the company maintained lower inventory levels in order to prioritize payments during the year. MSL is entitled for a capital subsidy of Rs.7.17Cr which is expected to be received in H2FY24. Fund based limits were utilized in the range of 75-77 percent during the past 12 months of FY23. Going forward the company is expected to have adequate liquidity on account of expected improvement in operations in near to medium term.

Outlook: Stable

Acuité believes that MSL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its margins significantly. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or further deterioration in its working capital management or larger-than-expected debt-funded capex leading to further deterioration in its financial risk profile and liquidity.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	171.65	108.00
PAT	Rs. Cr.	15.47	6.57
PAT Margin	(%)	9.01	6.09
Total Debt/Tangible Net Worth	Times	0.91	1.59
PBDIT/Interest	Times	8.34	3.99

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-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Mar 2022	Cash Credit	Long Term	19.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	20.50	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	2.34	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	2.80	ACUITE BBB- Stable (Assigned)
	Working Capital Demand Loan	Long Term	2.88	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.50	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	0.22	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.86	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	19.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Letter of Credit	Short Term	9.00	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	1.98	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	0.98	ACUITE BBB- Stable (Assigned)
	Bills Discounting	Long Term	4.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.44	ACUITE BBB- Stable (Assigned)
30 Dec 2020	Cash Credit	Long Term	5.50	ACUITE BBB- Negative (Reaffirmed)
	Bills Discounting	Long Term	4.50	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	0.62	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	0.50	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	16.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	19.00	ACUITE BBB- Negative (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.38	ACUITE BBB- Negative (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE A4+ Downgraded
Indian Overseas Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE BB+ Stable Downgraded
Karur Vysya Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.50	ACUITE BB+ Stable Downgraded
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.00	ACUITE BB+ Stable Downgraded
Indian Overseas Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A4+ Downgraded
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.52	ACUITE BB+ Stable Downgraded
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.83	ACUITE BB+ Stable Downgraded
Karur Vysya Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.67	ACUITE BB+ Stable Downgraded
Karur Vysya Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	4.50	ACUITE BB+ Stable Downgraded
Indian Overseas Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.70	ACUITE BB+ Stable Downgraded
Karur Vysya Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.49	ACUITE BB+ Stable Downgraded
Karur Vysya Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.99	ACUITE BB+ Stable Downgraded
Indian Overseas Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	2.80	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

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