

## Press Release

## Meera Cotton &amp; Synthetic Mills Private Limited

26 September, 2017



## Rating Upgraded and Reaffirmed

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 the long term rating to '**SMERA BB+**' (read as **SMERA double B plus**) from '**SMERA BB**' (read as **SMERA double B**) and reaffirmed the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 50.00 crore bank facilities of Meera Cotton & Synthetic Mills Private Limited (MCSMPL). The outlook is '**Stable**'.

The upgrade is in view of the improvement in the financial risk profile and profitability margins of MCSMPL. SMERA believes that MCSMPL will maintain its financial risk profile along with improved profitability over the medium term.

MCSMPL, incorporated in 1994 is engaged in the manufacturing of texturised, twisted yarn, knitted fabric and readymade garments. The company, headed by Managing Director, Mr. Jayesh Shah has two manufacturing units at Silvassa and Bhiwandi with capacities of 7000 MT per annum for knitted fabrics, 9000 MT per annum for texturised yarn and 1200 MT per annum for twisted yarn.

**List of key rating drivers and their detailed description:****Strengths**

**Experienced management:** The promoters are engaged in the manufacturing of fabrics since over two decades and have developed healthy relations with customers and suppliers.

**Moderate financial risk profile:** MCSMPL's financial risk profile has remained moderate marked by healthy net worth of Rs.28.30 crore as on 31 March, 2017 (Provisional) supported by unsecured loans to the tune of Rs.0.52 crore taken as quasi equity. The gearing stood at 1.28 times as on 31 March, 2017 (Provisional) as against 1.45 times a year earlier. The total debt of Rs. 39.26 crore in FY2017 consists of Rs. 25.59 crore as short term debt and Rs. 10.36 crore as long term debt. The ICR stood at 2.54 times in FY2017 (Provisional) as against 1.90 times for FY2016. The DSCR remained moderate at 1.31 times in FY2017 (Provisional) as against 1.79 times in FY2016. MCSMPL has undertaken capital expenditure of Rs. 5.50 crore to be funded by term loan of Rs. 4.50 crore and Rs. 1.00 crore through internal accruals. Going ahead the DSCR is expected to range between 1.42 times to 1.51 times considering the additional term loan of Rs. 4.50 crore to be availed for the on-going capital expenditure.

The net cash accruals are healthy at Rs. 6.05 crore in FY2017 (Provisional) as against Rs. 4.75 crore

in FY2016. The NCA/TD stood at 0.15 times for FY2017 (Provisional) as against 0.13 times in FY2016.

**Improvement in profitability margins Y-O-Y:** MCSMPL has registered improvement in profitability margins Y-O-Y. The EBITDA margins improved to 5.89 per cent in FY2017 (Provisional) as against 4.67 per cent in FY2015. This is majorly on account of increase in the sale of knitted fabric.

The PAT margins have also improved to 1.53 per cent in FY2017 (Provisional) as against 1.14 per cent in FY2016.

However, going ahead SMERA believes that the profitability margins of MCSMPL will increase due to higher contribution of knitted fabrics in the total revenue mix.

**Efficient working capital cycle:** The working capital cycle is comfortable at 59 days in FY2017 (Provisional) as against 55 days in FY2016. The working capital cycle has deteriorated on account of increase in receivables to 45 days in FY2017 from 27 days in FY2016 on account of increase in manufacturing of knitted fabrics which has changed the operating cycle of the company. The inventory days improved to 29 days in FY2017 from 41 days in FY2016. The GCA days are also comfortable at 84 days in FY2017 (Provisional) as against 77 days in FY2016. However, the bank limit utilisation stood at 86 per cent for the six months ended June, 2017.

## **Weaknesses**

**Susceptibility of revenues and margins to volatility in global crude prices:** Revenues of MCSMPL have been uneven during the period under study on account of fluctuations in global crude prices. The revenues declined to Rs. 166.66 crore in FY2016 as against Rs. 199.13 crore in FY2015. However, as per provisional financials, the revenue increased to Rs.189.39 crore in FY2017. Further, the margins are also susceptible to fluctuation in the prices of raw material, mainly PVC chemical used to manufacture texturised and twisted yarn.

**Analytical approach:** SMERA has considered the standalone business and financial risk profiles of MCSMPL to arrive at the rating.

## **Applicable Criteria**

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

## **Outlook: Stable**

SMERA believes that MCSMPL will maintain a stable outlook over the medium term on account of the company's established market position in the cotton yarn industry and extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in profitability margins supported by healthy revenue growth or significant improvement in its capital structure owing to equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

**About the Rated Entity: Key financials**

In FY2016-17 (Provisional), the company reported profit after tax (PAT) of Rs.2.89 crore on operating income of Rs.189.39 crore as against net profit of Rs.1.90 crore on operating income of Rs.166.66 crore in the previous year. The tangible net worth stood at Rs.28.32 crore as on 31 March, 2017 as against Rs. 25.31 crore a year earlier.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for the last three years:**

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
10 Sept, 2016	Cash credit	Long term	22.85	SMERA BB/ Stable (Assigned)
	Term loan	Long term	17.37	SMERA BB/ Stable (Assigned)
	Proposed bank facility	Long term	5.93	SMERA BB/Stable (Assigned)
	Foreign Bill Discounting	Short term	3.00	SMERA A4+ (Assigned)
	Bank guarantee	Short term	0.85	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/ Outlook
Cash Credit	N.A	N.A	N.A	27.28* (revised from Rs. 22.85 cr)	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term loan I	N.A	N.A	N.A	17.37	SMERA BB+/Stable (Upgraded from SMERA BB/Stable)
Term loan II	N.A	N.A	2021	4.50	SMERA BB+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	0.85	SMERA A4+ (Reaffirmed)

\*Includes sublimit as FDBPN/PC

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**ABOUT SMERA**

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