



Press Release

Meera Cotton and Synthetic Mills Private Limited

October 11, 2018

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.63.31 Cr. (Enhanced from Rs. 50.00 Cr.)
Long Term Rating	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

*Refer annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating to '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 52.77 crore bank facilities of Meera Cotton Synthetic Mills Private Limited (MCSM). The outlook is '**Stable**'.

Further Acuité has assigned long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) to the Rs. 10.54 crore bank facilities of MCSM. The outlook is '**Stable**'.

The upgrade revision is in view of continuous improvement in profitability during the period FY2016 to FY2018 under the study which is expected to be sustained over the near to medium term. Acuité expects that MCSM will be able to exhibit improved operating metrics through focus on value added products such as knitted fabrics and garments. The contribution of these value added products to MCSM's overall revenues is likely to increase over the next 1-2 years.

MCSM, incorporated in 1994 is engaged in the manufacturing of texturised and 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.

Analytical Approach:

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

Key Rating Drivers

Strengths

Established track record of operations and experienced management:

The promoters have been engaged in manufacturing of fabrics business from more than two decades. Being into similar line of business since past two decades, the promoters have gained good insight about the industry and have developed healthy relations with its customers and suppliers.

Acuité believes that the company will be benefitted by the established track record of operations and experienced management.

Moderate financial risk profile:

The financial risk profile has improved in FY2018 over FY2017. The net worth stood at Rs.31.25 crore as on March 31, 2018 (Provisional) as against Rs.27.40 crore as on March 31, 2017 on account of healthy accretion to reserves. The leverage and coverage ratios continue to remain healthy. The tangible net worth includes unsecured loans to the tune of Rs.0.56 crore considered as quasi equity. The gearing stood at 1.37 times as on March 31, 2018 (Provisional) as against 1.43 times a year earlier. The total debt of Rs.42.75 crore outstanding as on March 31, 2018 (Provisional) comprises Rs.14.37 crore as secured term loan from the bank and Rs.28.39 crore as short term working capital borrowings from the bank. The ICR stood at 2.95 times for FY2018 (Provisional) as against 2.45 times for FY2017.

MCSM has undertaken capital expenditure of Rs.~13.50 crore to be funded by term loan of Rs.10.54 crore and Rs.2.96 crore through internal accruals and promoters contribution. Going ahead, DSCR is expected to range between 1.42 times to 1.51 times considering the additional term loan of Rs.10.54 crore to be availed for the on-going capital expenditure. Net cash accruals are healthy at Rs.7.27 crore in FY2018 (Provisional) as against Rs.5.54 crore in FY2017. Going ahead, the company is expected to generate cash accruals of around Rs.9.05 crore in FY2019 against CPLTD of Rs.3.96 crore. Total outside liabilities to tangible net worth stood comfortable at 1.82 times as on 31 March, 2018 (Provisional) (PY: 1.89 times).

Acuité believes the financial risk profile of MCSM will remain moderate on the back of healthy generation of net cash accruals over the medium term.

Improvement in margins Y-O-Y:

MCSM has registered improvement in profitability margins Y-O-Y. The EBITDA margins have improved to 6.41 percent in FY2018 (Provisional) as against 6.05 percent in FY2017 and 5.86 percent in FY2016. This is majorly on account of decline in raw material cost in FY2018 over FY2017. The PAT margins have also improved to 2.09 percent in FY2018 (Provisional) as against 1.139 percent in FY2017. This has increased on account of decrease in interest cost to Rs.4.05 crore in FY2018 (Provisional) as against Rs.4.72 crore in FY2017.

Acuité believes that the profitability margins of MCSM will increase due to higher contribution of knitted fabrics in the total revenue mix.

Comfortable working capital cycle:

The company has efficient working capital cycle of 57 days in FY2018 (Provisional) as against 61 days in FY2017. The Gross Current Assets (GCA) are comfortable at 91 days in FY2018 (Provisional), however, it has increased from 81 days in FY2017. This is on account of increase in inventory holding period to 32 days in FY2018 (Provisional) as against 29 days in FY2017 and this is on account of increase in manufacturing of knitted fabrics which has changed the operating cycle of the company. The debtor days are comfortable at 49 days in FY2018 (Provisional) as against 45 days in FY2017. The cash and bank balance stood at Rs. 1.25 crore as on 31 March, 2018 (Provisional) and the net cash from operating activity stood at Rs. 3.05 crore for FY2018 (Provisional). The average bank limit utilisation stood at ~89 percent for the last six months ended August, 2018.

Acuité believes that MCSM will maintain its working capital cycle on the back of adequate liquidity over the medium term.

Weaknesses

Susceptibility of revenues and margins to volatility in global crude prices:

Revenues of MCSM have been uneven during the period under study on account of fluctuations in global crude prices. The revenue of the company stood at Rs.181.57 crore in FY2018 (Provisional) as against Rs.189.29 crore in FY2017 and Rs.166.66 crore in FY2016. The operating income is uneven because of fluctuation in global crude oil prices and implementation of GST in FY2018 which has impacted the sales growth in FY2018 over 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.

Outlook – Stable

Acuité believes that MCSM 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

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	182.54	189.29	166.66
EBITDA	Rs. Cr.	11.71	11.46	9.76
PAT	Rs. Cr.	3.82	2.63	1.90
EBITDA Margin	(%)	6.41	6.05	5.86
PAT Margin	(%)	2.09	1.39	1.14
ROCE	(%)	11.45	12.62	12.88
Total Debt/Tangible Net Worth	Times	1.37	1.43	1.45
PBDIT/Interest	Times	2.95	2.45	1.90
Total Debt/PBDIT	Times	3.57	3.40	3.22
Gross Current Assets (Days)	Days	95	81	78

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
26-Sep-2017	Cash credit	Long term	27.28* (Revised from Rs. 22.85 cr)	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term loan I	Long term	17.37	ACUITE BB+/Stable (Upgraded from ACUITE BB/Stable)
	Term loan II	Long term	4.50	ACUITE BB+/Stable (Assigned)
	Bank Guarantee*	Short term	0.85	ACUITE A4+ (Reaffirmed)
10-Sep-2016	Cash credit	Long term	22.85	ACUITE BB/ Stable (Assigned)
	Term loan	Long term	17.37	ACUITE BB/ Stable (Assigned)
	Proposed bank facility	Long term	5.93	ACUITE BB/Stable (Assigned)
	Foreign Bill Discounting	Short term	3.00	ACUITE A4+ (Assigned)
	Bank guarantee	Short term	0.85	ACUITE A4+ (Assigned)

*Includes sublimit as FDBPN/PC

***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	Not Applicable	Not Applicable	Not Applicable	37.85* (Revised from Rs 27.28 Cr.)	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan I	Not Applicable	Not Applicable	Not Applicable	9.32	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan II	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Term loan III	Not Applicable	Not Applicable	Not Applicable	10.54	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE A3 (Upgraded from ACUITE A4+)

*Includes sublimit as FDBPN/PC

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About Acuité Ratings & Research:

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