

Press Release

Meera Cotton and Synthetic Mills Private Limited



December 24, 2019

Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs.63.31crore
Long Term Rating	ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB- and Assigned)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BBB-** (read as ACUITE triple BBB minus) and short term rating of '**ACUITE A4+** (read as ACUITE A4+) from '**ACUITE A3** (read as ACUITE A three) on the Rs.63.31 crore bank facilities of Meera Cotton and Synthetic Mills Private Limited (MCSMPL). The outlook is '**Stable**'.

The rating downgrade is on account of significant deterioration in working capital leading to higher reliance on the external bank borrowing thereby, deterioration in financial risk profile. The working capital has deteriorated marked by increase in Gross Current Asset (GCA) Days which stood at 130 in FY2019 as compared to 97 days in FY2018. The increase in GCA is majorly on account stretched receivables marked by debtor days of 78 for FY2019 as against 49 in the previous year. This has led to higher reliance over the external bank borrowings indicated by significant increase in interest cost. This has led to deterioration in financial risk profile marked by increase in gearing to 1.70 times as on 31 March 2019 from 1.41 times as on 31 March 2018. Interest coverage ratio and TOL/TNW have also deteriorated to 3.48 times and 2.28 times as on 31 March 2019 from 3.72 times and 1.87 times as on 31 March, 2018, respectively. Any further deterioration in working capital leading to deterioration in financial risk profile will impede a negative bias towards the rating.

Incorporated in the year 1994, Meera Cotton and Synthetic Mills Private Limited is a Mumbai-based company. The company is headed by Mr. Jayesh Shah (Managing Director). The company is engaged in the manufacturing of yarn, knitted fabrics and garments. The company has two manufacturing plants at Silvassa and Bhiwandi with capacities of 10,500MT per annum for texturized yarn, 1200MT per annum for twisted yarn and 7500MT per annum for knitted fabrics.

Analytical Approach

Acuité has considered standalone business and financial risk profiles of Meera Cotton and Synthetic Mills Private Limited to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

MCSMPL is headed by the Managing Director - Mr. Jayesh Shah, who has an experience of around four decades in textile industry. The same has helped the company in establishing healthy relationships with its customers and suppliers. The company caters to reputed clientele like Future Retail Limited, Fine Dyeing Private Limited among others with no major concentration in its revenue profile. On the back of stable and repeated orders by the key customers, the revenue has improved to Rs.197.10 crores in FY2019 from Rs.181.44 crore in the previous year.

Weaknesses

- **Deterioration in working capital efficiency**

MCSMPL's working capital has deteriorated marked by significant increase in gross current asset (GCA) days to 130 for FY2019 from 97 days in the previous year. This is majorly on account of increase in debtor days to 78 for FY2019 from 49 days in FY2018. This has led to higher reliance on working capital limits marked by increase in interest cost in FY2019 over FY2018. The working capital limit utilization over the last six month period ended October 2019 was around 88 percent.

Acuité expects the operations of the company to remain working capital intensive on account of the higher credit period extended to the customers.

- **Deterioration in Financial risk profile**

The financial risk profile of the company has deteriorated marked by deterioration in gearing, coverage indicators.

The company's tangible net worth stood at Rs.34.56 crore as on 31 March, 2019 as against Rs.30.66 crore as on 31 March, 2018. The gearing has increased to 1.70 times as on 31 March, 2019 from 1.41 times in the previous year. The net profitability of the company has declined in FY2019 marked by profit margin of 1.98 percent for FY2019 as against 2.09 per cent for FY2018. The decline in PAT margins is on account of increase in interest cost. This has led to deterioration in coverage indicators marked by interest coverage ratio of 3.48 times for FY2019 as against 3.70 times for FY2018. Further, the DSCR has deteriorated to 1.48 times for FY 2019 as against 1.56 times in FY2018. The decline in profitability has led to limited cushion in repayment.

Further, the company has followed aggressive leverage policy on account of continuous capital expenditure of Rs.6.98 crore in the last two years ending FY2019. The outstanding long term debt was Rs.12.62 crore as on 31 March, 2019. This has led to deterioration in Debt/EBITDA and TOL/TNW marked by 4.48 times and 2.28 times respectively as on 31 March 2019.

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

The company's margin is susceptible to changes in the price of the yarn, the main raw material. Since cotton is an agricultural commodity, the availability and prices of the same is highly dependent on agro-climatic conditions. Besides, the cotton prices are fixed by the government through Minimum Support Price (MSP). Moreover, the demand for cotton fabric is also dependent on the prices of polyester fabrics. Since, polyester yarn is dependent on crude oil prices; any decline in crude oil prices can have an adverse impact on the demand for cotton fabric. Acuité believes that the company shall be able to maintain its operating profitability around the existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the domestic market.

Rating sensitivity factor

- Deterioration in working capital leading to deterioration in liquidity
- Further deterioration in financial risk profile

Material Covenants

None

Liquidity position: Stretched

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.7.68 crore in FY2019 as against maturing debt obligations of around Rs.4.10 crore during the same period. The cash accruals of the firm are estimated to remain around Rs.8.28 crore to Rs.9.93 crore during 2020-22 against repayment obligations ranging from Rs.4.52 crore to Rs.4.93 crore during the same period. The company's working capital operations are intensive in nature marked by gross current asset (GCA) days of 130 for FY2019 as against 97 days in FY2018. The company maintains unencumbered cash and bank balances of Rs.2.04 crore as on 31 March 2019. The current ratio

stands at 1.16 times as on 31 March 2019. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of moderate net cash accruals to debt repayments over the medium term.

Outlook: Stable

Acuité believes that Meera Cotton and Synthetic Mills Private Limited will continue to benefit over the medium term due to its long track record of operations and experienced management. The outlook may be revised to 'Positive', if the firm demonstrates substantial growth in its revenues and operating margins while maintaining its working capital management. Conversely, the outlook may be revised to "Negative", if firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile and deterioration in working capital leading to higher reliance on external borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	197.10	181.44
PAT	Rs. Cr.	3.90	3.79
PAT Margin	(%)	1.98	2.09
Total Debt/Tangible Net Worth	Times	1.70	1.41
PBDIT/Interest	Times	3.48	3.72

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

Not Applicable

Any other information

Not Applicable

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>
- 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 (Up to previous three years)

Date	Name of the Facilities/ instruments	Term	Amount (Rs. Cr)	Ratings/Outlook
October 11, 2018	Cash Credit	Long Term	37.85*	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan-I	Long Term	9.32	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan-II	Long Term	4.50	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)

	Term Loan-III	Long Term	10.54	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	1.10	ACUITE A3 (Upgraded from ACUITE A4+)
September 26, 2017	Cash Credit	Long Term	27.82*	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)
September 10, 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 FDBP/PC

***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	37.85*	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan-I	Not Applicable	Not Applicable	Not Applicable	3.99	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)
Term Loan-II	Not Applicable	Not Applicable	Not Applicable	4.05	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)

Term Loan-III	Not Applicable	Not Applicable	Not Applicable	10.54	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-/Stable)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	5.78	ACUITE BB+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE A4+ (Downgraded from ACUITE A3)

*Includes sublimit FDBP/PC

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About Acuité Ratings & Research:

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