

Press Release

Meera Cotton & Synthetic Mills Private Limited

September 03, 2020



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.63.31 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 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**) on the Rs.63.31crore bank facilities of Meera Cotton And Synthetic Mills Private Limited (MCSMPL). The outlook is '**Stable**'.

The upgrade in the rating is on account of increase in the operating income, improvement in the operating margins, better inventory management and improvement in the working capital cycle. The operating income of the company has increased by around 15.83 percent in FY2020 to Rs.228.31crore (Prov.) from Rs.197.10crore in FY2019. The operating margin has increased to 8.14 percent (Prov.) in FY2020 from 6.60 percent in FY2019. Similarly, the PAT margin has increased to 3.03 percent (Prov.) in FY2020 from 1.98 percent in FY2019.

Incorporated in the year 1994, MCSMPL is a Mumbai based company. The MD of the company- Mr. Jayesh Shah has been engaged with the company since its inception and has an experience of more than three decades in the industry. The company is engaged in the manufacturing of Texturized Yarn, Twisted Yarn, Knitted Fabrics and garments. The company has two manufacturing plants at Bhiwandi and Silvassa with capacities of 14000 MTPA of Texturized Yarn, 1200 MTPA of Twisted Yarn and 9700 MTPA of Knitted Fabrics.

Analytical Approach

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

Key Rating Drivers

Strengths

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

MCSMPL was incorporated in the year 1994. The Managing Director of the company Mr. Jayesh Shah has been associated with the company since its inception and has an experience of more than three decades in the aforementioned industry and is ably assisted by an experienced second line of management. The extensive experience of the directors has helped the company to maintain a healthy relationship with its customers and suppliers. The key customers of the company include names like Future Retail Limited, Fine Dyeing Private Limited, Mahabal Impex and Yash Fashion amongst others with no major concentration in revenues. The key suppliers include names like DNH Spinners Private Limited, Geelon Industries Private Limited, Filatex India Limited and International Business and Trade, to name a few. On the back of stable and repeated orders from its customer, the operating income of the company has increased by around 15.83 percent to Rs.228.3 crore (Prov.) in FY2020 from Rs.197.10 crore in FY2019.

Acuité believes that the company will benefit from the extensive experience of the directors along with a healthy relationship with its customer and suppliers.

- **Improvement in the profitability margin**

MCSMPL's profitability margin has improved in FY2020 as against FY2019. The EBITDA margins have improved to 8.14 percent (Prov.) in FY2020 from 6.60 percent in FY2019. This is majorly on account of decline in the raw material price in FY2020 over FY2019. Moreover, the company also enjoys higher-margin associated with the Knitted Fabric segment. Similarly, the PAT margin has increased to 3.03 percent (Prov.) in FY2020 from 1.98 percent in FY2019.

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

- **Moderate financial risk profile**

MCSMPL's financial risk profile is moderate, marked by healthy net worth, moderate gearing and comfortable debt protection metrics. The company's net worth is healthy and is estimated at around Rs.41.94 crore (Prov.) as on March 31, 2020 as against Rs.35.11 crore as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020 on account of limited accretion to reserves during the same period. The gearing continues to remain moderate around 1.14 times (Prov.) as on March 31, 2020 as against 1.66 times as on March 31, 2019. The total outstanding borrowing as on March 31, 2020 is Rs.47.63 crore which includes long term borrowings of Rs.14.55 crore and short term borrowing of Rs.30.81 crore. As on March 31, 2020, the gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stand at 1.14 times (Prov.) and 1.98 times (Prov.) respectively as on March 31, 2020 as against 1.66 times and 2.22 times as on March 31, 2019. The company, on the other hand, generated cash accruals of Rs.11.16 crore (Prov.) in FY2020.

The revenue of the company has increased by around 15.83 percent to Rs.228.31 crore (Prov.) in FY2020 from Rs.197.10 crore in FY2019. EBITDA in absolute term has increased to Rs.18.59 crore (Prov.) in FY2020 as against Rs.13.00 crore in FY2019. The increase in EBITDA is due to a decline in the raw material price. Similarly, PAT has increased from Rs.3.90 crore in FY2019 to Rs.6.91 crore (Prov.) in FY2020. The comfortable profitability levels, coupled with moderate debt levels, have led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.23 times (Prov.) and 3.71 times (Prov.) respectively as against 0.13 times and 3.48 times in FY2019, respectively. The Debt-EBITDA ratio stands at 2.48 times (Prov.) in FY2020 against 4.44 times in FY2019.

Weaknesses

- **Working capital intensive nature of operations**

MCSMPL's working capital operation is intensive in nature. However, it has improved in FY2020 as against FY2019 as it is reflected by its Gross Current Asset (GCA) days of around 127 days (Prov.) in FY2020 as against 130 days in FY2019. The working capital cycle days have improved from 79 in FY2019 to 59 days (Prov.) in FY2020. The company has well managed its inventory marked by inventory holding period of 25 days (Prov.) as on 31 March, 2020 as against 35 days as on 31 March, 2019. MCSMPL has receivable days of 97 (Prov.) as on 31 March, 2020 as against 78 days as on 31 March, 2019. This is due to higher credit terms of 90 days and 120 days given to their Knitted Fabric and Garment segment customers, respectively. Longer payment term has resulted in accumulated receivables of Rs.60.57 crore (Prov.) as on 31 March, 2020. On the other hand, the company has a credit payment of 64 days (Prov.) as on 31 March, 2020 as against 34 days as on 31 March, 2019. As a result, the average bank limit utilization stood moderate at around 81.60 percent for six months ended June, 2020, while its peak utilization was high at around 92.91 percent during the same period. Acuité expects the working capital management to remain intensive over the medium term on account of stretched receivables.

Liquidity Position: Adequate

The company has an adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.11.16 crore (Prov.) in FY2020 as against the maturing debt obligations of Rs.2.26 crore during the same period. The cash accrual of the company is estimated to remain around Rs.11.28 crore to Rs.13.50 crore during 2021-23 against repayment obligations of around Rs.2.94 crore to Rs.6.29 crore during the same period. The company's working capital operation is intensive marked by the Gross Current Asset (GCA) days of 127 days (Prov.) in FY2020 as against 130 days in FY2019. The average bank limit utilization stood moderate at around 81.60 per cent for six months ended June, 2020. The company maintains unencumbered cash and bank balances of Rs.0.13 crore (Prov.) as on 31 March 2020. Further, the company has an investment of Rs.0.83 crore (Prov.) as on March 31, 2020. The current ratio stands at 1.25 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals to its debt repayments over the medium term.

Rating Sensitivities

- Any further slippage in the debtor collection may affect the liquidity of the company in near to medium term period.

Outlook: Stable

Acuité believes that MCSMPL will maintain a stable outlook over the medium term backed by its experienced management and established track record of operation in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	228.31	197.10
PAT	Rs. Cr.	6.91	3.90
PAT Margin	(%)	3.03	1.98
Total Debt/Tangible Net Worth	Times	1.14	1.66
PBDIT/Interest	Times	3.71	3.48

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

Not Applicable

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Dec-2019	Cash Credit	Long Term	37.85*	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Term Loan-I	Long Term	3.99	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Term Loan-II	Long Term	4.05	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Term Loan-III	Long Term	10.54	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/Stable)
	Proposed Long Term Loan	Long Term	5.78	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Short Term	1.10	ACUITE A4+ (Downgraded from ACUITE A3)
11-Oct-2018	Cash Credit	Long Term	37.85*	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	9.32	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	4.50	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Term Loan	Long Term	10.54	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	1.10	ACUITE A3 (Upgraded from ACUITE A4+)
26-Sep-2017	Cash Credit	Long Term	27.28*	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)

*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 BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
Term loan-I	July 31, 2016	Not Applicable	January 31,2022	1.27	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
Term loan-II	February 28,2019	Not Applicable	February 28,2024	3.15	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
Term loan-III	February 29,2020	Not Applicable	August 31,2025	9.58	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
Term loan-IV	January,2021	Not Applicable	June,2022	3.78	ACUITE BBB-/ Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	6.58	ACUITE BBB-/ Stable (Upgraded from ACUITE BB+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE A3 (Upgraded from ACUITE A4+)

*Includes sublimit FDBP/PC

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About Acuité Ratings & Research:

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