

Press Release

Meera Cotton & Synthetic Mills Private Limited

March 15, 2023

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	112.06	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	1.25	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	113.31	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating to '**ACUITE A3+**' (read as **ACUITE A Three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 113.31 crore bank facilities of Meera Cotton and Synthetic Mills Private Limited (MCSMPL). The outlook is '**Stable**'.

Rationale for upgrade

The rating upgrade takes into account the sustained operating and financial performance of MCSMPL over the last three years and further significant improvement expected in the near term driven by completion of capex in FY2023. The company's operating income ranged between Rs. 195-327 crore over the last three years ended FY2022 and is expected to close the year FY2023 at above Rs.400 crore. The company is undertaking continuous capex since the last three years. In the period FY2021-22 MCSMPL completed a capex to enhance its production capacity to 33700 MTPA in FY2022 from 24900 MTPA in FY2020. It is currently under process to further enhance the capacity to 38500 MTPA by end of FY2023. The enhanced production capacity with an average utilization ranging between 80-90 percent drives the improved scale of operations apart from the higher price realisations. Acuite believes the company will be able to sustain its improved scale of operations in the medium term driven by increased inhouse capacities. However, its ability to improve its profitability margins will remain a key rating monitorable. The companies operating margins stood at 7.72 percent in FY2022 as against 9.50 percent in FY2021. The margins are expected to remain in the range of 8-8.5 percent over the medium term.

Further, the rating also derives strength from the moderate financial risk profile of MCSMPL which is marked by moderate net worth, comfortable gearing and coverage indicators. The company's overall gearing though noted an increasing trend in the last three years ended FY2022, it remained less than 1.5 times and is expected to lessen over the medium term, with completion of the ongoing capex and no further additional debt-funded capex planned. The interest coverage ratio remained comfortable in the range of 3.75-4.5 times over the last three years and is expected to improve further over the medium term.

About the Company

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) who has been engaged with company since inception and has an experience of more than three decades in the industry. The company is engaged in the manufacturing of yarn, knitted fabrics, and garments and deals with polyester and spandex. The company has two manufacturing plants at Silvassa and Bhiwandi.

Analytical Approach

Acuité has considered the standalone business and financial risk profile 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 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 Enterprise Limited, Ginza Industries Limited, Karni 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.

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

Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by moderate net worth, gearing and comfortable coverage indicators. The net worth of the company improved and stood at Rs.58.33 crore as on 31 March 2022 as against Rs.49.06 crore as on 31 March 2021 on account of accretion in reserves. The management follows a moderate leverage policy reflected in its gearing level of 1.48 times as on 31 March 2022 as against 1.45 times as on 31 March 2021. The total outside liabilities to tangible net worth (TOL/TNW) ratio stood moderate at 1.83 times in FY2022 as against 1.90 times in FY2021.

The interest coverage ratio (ICR) stood at 4.51 times as on 31 March 2022 as against 4.25 times as on 31 March 2021. The debt service coverage ratio (DSCR) stood at 1.60 times on 31 March 2022 as against 2.09 times as on 31 March 2021.

Acuité believes that the company will be able to maintain a moderate financial risk profile in near to medium term.

Moderately efficient working capital nature of operations

The working capital management of the operations of the company is moderate marked by GCA days of 116 days in FY2022 as against 147 days in FY2021. The receivables days stood at 82 days as on 31 March 2022 as against 94 days as on 31 March 2021. The inventory holding days stood at 26 days as on 31 March 2022 as against 40 days as on 31 March 2021. However, the average cash credit limit utilization stood at around 46.97 percent during the last twelve months as on October 2022.

Weaknesses

Exposure of risks associated with planned capital expenditure

The company has planned construction of additional building and purchase of 7 Plant and Machinery towards expansion of texturizing unit at Surangi, Silvassa. The project will be completed by end of FY2023, which is expected to be funded through term loan is Rs.14.40 crore. However, the risk is mitigated to certain extent basis the company's past track record of timely completion of capex. In the period FY2021-22 MCSMPL completed a capex to enhance its production capacity to 33700 MTPA in FY2022 from 24900 MTPA in FY2020.

Highly fragmented and competitive industry and susceptibility of margins to raw material price fluctuation risk

The knitted garment industry in India is highly fragmented and competitive, marked by the presence of a large number of organised and unorganised players. MCSMPL is exposed to intense competition from both domestic players as well as the established players in the overseas market. The shifts in consumption patterns can also have an adverse impact on the operations of the company. Further, the profitability of the company is susceptible to fluctuations in the prices of raw materials – polyester, spandex and other consumables.

Rating Sensitivities

- Deterioration in working capital cycle leading to deterioration in liquidity
- Ability of the company to maintain its profitability margins amidst the fluctuation in raw material prices

Material covenants

None

Liquidity Position Adequate

Liquidity of MCSMPL is adequate marked by adequate cash accruals of Rs.15.70 crore in FY2022 against the maturing debt obligations of Rs.7.62 crore. Going ahead, the net cash accruals are expected to be in the range of Rs. 20.20-24.95 core over the medium term against maturing debt obligation in the range of Rs.6.98-11.89 crore. Further, the company maintains unencumbered cash balances of Rs.4.24 crore as on 31 March 2022. The current ratio stood at 1.73 times as on 31 March 2022. Further, NCA/TD (Net Cash Accruals to Total Debt) stood at 0.18 times in FY2022. However, the average cash credit limit utilization stood at around 46.97 percent during the last twelve months as on October 2022.

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 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 because of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	327.71	195.48
PAT	Rs. Cr.	10.31	8.69
PAT Margin	(%)	3.15	4.44
Total Debt/Tangible Net Worth	Times	1.48	1.45
PBDIT/Interest	Times	4.51	4.25

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

Not Applicable

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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
06 Feb 2023	Cash Credit	Long Term	37.85	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	7.40	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	18.36	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.97	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.10	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	0.15	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	3.39	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.95	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	14.40	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	4.66	ACUITE BBB- Stable (Assigned)

	Proposed Bank Facility	Long Term	0.08	ACUITE BBB- Stable (Reaffirmed)
02 Dec 2021	Proposed Long Term Loan	Long Term	6.58	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	9.58	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.78	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.15	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.10	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.27	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	37.85	ACUITE BBB- Stable (Reaffirmed)
03 Sep 2020	Term Loan	Long Term	3.78	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.15	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Long Term Loan	Long Term	6.58	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	37.85	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	9.58	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	1.27	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	1.10	ACUITE A3 (Upgraded from ACUITE A4+)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.25	ACUITE A3+ Upgraded (from ACUITE A3)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	57.85	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.47	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.40	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.66	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	7.40	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.97	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.95	ACUITE BBB Stable Upgraded (from

								ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	18.36	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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