Press Release

Milan Ginning Pressing Private Limited

May 02, 2019

Rating Upgraded

Total Bank Facilities Rated*	Rs. 21.40 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Upgraded from ACUITE BB+/Stable)

** 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)** to the Rs.21.40 crore bank facilities of Milan Ginning Pressing Private Limited (MGPL). The outlook is **'Stable'**.

Rating upgrade reflects improving revenues and financial risk profile and higher linkages in Milan group. The operating revenues have increased to Rs.349.86 crore in FY2018 from Rs.263.99 crore in FY2017. Rating upgraded has reflected also because of the significant increase in the contribution to the group. Further, the rating is supported by experienced management and reputed clientele of the firm.

MGPL was incorporated in the year 1995. The company is engaged in manufacturing and trading of cotton bales. The installed capacity is 48 machines producing 400 bales every day utilised 100 per cent. Apart from selling 50 per cent of its produce to its group company Sustainable Spinning and Commodities Private Limited, it exports and sells domestically.

About the Group

Milan Group comprises of Sustainable Spinning And Commodities Private Limited, Milan Ginning Pressing Private Limited and K R Solvent. The group was established in 1995 by Mr. Husenali Yusufali Narsinh. At present, it has presence in textile industry.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Sustainable Spinning and Commodities Private Limited (SSPL), Milan Ginning Pressing Private Limited (MGPL) and K R Solvent (KRS) together referred to as the 'Milan Group' (MG). The consolidation is in view of the common management, high level of integration and strong operational linkages.

Key Rating Drivers

Strengths

• Experienced management and established track record

Incorporated in 1995, MGPL is in the business of manufacturing and trading of cotton bales over two decades. MGPL is currently headed by Mr. Mohamedhasanain Husenali Narsinh, Ms. Minajbanu Husenali Narsinh, Mr. Yusufali Khusalbhai Narsinh, Mr. Husenali Yusufali Narsinh, Ms. Aarzooben Mohmmadali Narsinh, and Ms. Fatema Mohmadhasnein Narsinh. The company has an established track record of 23 years and has expert team of management with a long experience in textile industry.

• Reputed clientele with wide geographic diversification

Over the years, the management has been able to establish long term relations with reputed players in the industry. The firm exports to various countries and is one of the leading ginning and pressing companies of India. Moreover, SSPL caters to international clients such as H&M, Marks & Spencer and Nike. The company enjoys a long standing relationship with them due to their focus on quality. The quality of cotton that the company exports are as per international standard. The group is involved in export business in countries including Bangladesh, China, Europe, Egypt and other countries.

- **Healthy scale of operations and stable profitability**

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around 15.36 percent through the last three years ended 31 March, 2018. The company reported healthy revenue growth of ~26.45 percent with operating income of Rs.387.25 crore in FY2018 as against operating income of Rs.306.25 crore in FY2017. The operating margins of the company increased to 7.29 percent in FY2018 from 7.00 percent in FY2017.

- **Healthy financial risk profile**

The financial risk profile is healthy marked by high net worth and comfortable debt protection measures and moderate gearing. The net worth of the company is high at Rs.89.74 crore as on 31 March, 2018 as against Rs.75.35 crore as on 31 March, 2017. The gearing (debt to equity) of the company has stood moderate at 1.59 times as on March 31, 2018 as against 1.51 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.24 times as on 31 March, 2018 as against 2.27 times as on 31 March, 2017. The high revenue levels coupled with stable operating margins have resulted in comfortable debt protection measures. Interest Coverage Ratio (ICR) improved to 2.83 times in FY2018 as against 2.59 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.11 times as on 31 March, 2018 as against 0.13 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.56 times in FY2018 as against 1.81 times in FY2017.
Acuité believes that the financial risk profile of Milan group will continue to remain healthy over the medium term on account of its improving scale of operations and net cash accruals.

Weaknesses

- **Intensive working capital operations**

Milan group has intensive working capital operations marked by high Gross Current Assets (GCA) of 173 days in FY2018 as against 208 days in FY2017. The inventory and debtors levels stood at 58 and 82 days in FY2018 as against 69 and 80 days in FY2017, respectively. The high debtor days are due to the fact that the group deals with a large number of customers both domestic and export and the inventory is high due to the seasonality in cotton market. As a result, the average utilisation of bank limits stood at more than ~90 per cent in the last six months ending 31 March, 2019.

- **Susceptibility of profitability to fluctuations in raw material prices**

The Group is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets. Acuité believes that the group's ability to pass on increase in cotton prices to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the group's profitability margins over the near to medium term.

- **Highly competitive and fragmented industry**

The company operates in a highly competitive textile industry with several organised and unorganised players which limit the bargaining power of MG group.

Liquidity position:

Milan Group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of around Rs.15.06 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.4.18-10.10 crore over the same period. The group's working capital operations are intensive in nature marked by high gross current asset (GCA) days of 173 in FY 2018. This has led to high reliance on working capital borrowing, the cash credit limit in the group remains utilised at 90 percent during the last 6 months period ended March 2019. The group maintains unencumbered cash and bank balances of Rs.1.01 crore as on March 31, 2018. The current ratio of the group stood at 1.47 times as on March 31, 2018.
Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of steady scale of operations and healthy net cash accruals.

Outlook: Stable

Acuité believes that Milan Group will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company achieves efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case of deterioration leading to lengthening of the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	387.82	306.37	291.18
EBITDA	Rs. Cr.	28.28	21.45	21.88
PAT	Rs. Cr.	(0.98)	4.62	3.55
EBITDA Margin	(%)	7.29	7.00	7.51
PAT Margin	(%)	(0.25)	1.51	1.22
ROCE	(%)	5.82	7.30	15.99
Total Debt/Tangible Net Worth	Times	1.59	1.51	2.26
PBDIT/Interest	Times	2.83	2.59	2.62
Total Debt/PBDIT	Times	5.00	5.09	4.47
Gross Current Assets (Days)	Days	173	208	110

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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
- Consolidation of companies - https://www.acuite.in/view-rating-criteria-22.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
18-Jan-2018	Cash Credit*	Long Term	20.00	ACUITE BB+ / Stable (Assigned)
	Proposed	Long Term	1.40	ACUITE BB+ / Stable (Assigned)

**Sublimit – PCFC/EPC/EPB/FBD: Rs.15.00 crore*

*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	20.00	ACUITE BBB- /Stable (Upgraded from ACUITE BB+/Stable)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BBB- /Stable (Upgraded from ACUITE BB+/Stable)

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