

Press Release

MALOO INDUSTRIES

26 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Crore
Long Term Rating	SMERA B+/ Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 20.00 crore bank facilities of MALOO INDUSTRIES. The outlook is '**Stable**'.

Maloo Industries (MI) was established in 1997 as a proprietorship concern and the constitution was changed to partnership firm in 2015. The firm is currently promoted by Mr. Suyash Maloo and Mrs. Sandhya Maloo. Based out of Indore, the firm is engaged in cotton ginning, pressing, and export.

Key rating drivers

Strengths

Experienced management and established track record of operations

The promoters have an experience of over a decade in the cotton ginning and processing business. The promoters have developed healthy business relations with various government as well private entities like National Textile Corporation (NTC), Mafatlal Industries and Raymond among others.

Moderate working capital cycle

MI's working capital cycle is moderate marked by Gross Current Assets (GCA) of 87 days in FY2017 compared to 102 days in FY2016. The GCA days are mainly dominated by debtor days of 42 in FY2017 compared to 83 in FY2016. The average cash credit utilization for the past six months stood at ~95 percent. SMERA believes that efficient working capital management will be crucial for the firm to maintain a stable credit profile.

Weaknesses

Below average financial risk profile

MI has a below average financial risk profile marked by tangible net worth of Rs. 4.55 crore as on 31 March, 2017 as against Rs. 2.98 crore as on 31 March, 2016. It includes an unsecured loan of Rs. 3.07 crore as on 31 March, 2017 which is considered as quasi equity. The adjusted gearing stood at 3.54 times as on 31 March, 2017 as against 2.28 times as on 31 March, 2016. The debt of Rs. 16.11 crore mainly consists of working capital borrowings and the company is not having

any long term debt as on 31 March 2017. The Interest Coverage Ratio (ICR) stood at 1.13 times for FY2017 as against 1.04 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 4.89 times as on 31 March, 2017 as against 2.80 times a year ago. Further, SMERA expects the financial risk profile to improve marginally on account of absence of major debt funded capex plans and the capital additions by the promoters.

Customer concentration risk

MI is exposed to high customer concentration risk as the firm derived around 70 percent of its total sales from National Textile Corporation in FY2016-17.

Volatility in raw material prices

The firm's margins are susceptible to volatility in raw material prices which have been uneven during the period under study (FY2015-FY2017). Any adverse movement in raw material prices would impact margins unfavourably.

Competitive and fragmented industry

MI operates in a highly competitive and fragmented cotton industry characterized by large number of unorganized players, thus, impacting the bargaining power with customers and hence the margins.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of MI to arrive at the rating.

Outlook – Stable

SMERA believes MI will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' if the firm registers healthy growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	107.60	39.80	39.68
EBITDA	Rs. Cr.	1.07	0.73	0.57
PAT	Rs. Cr.	0.11	0.01	0.21
EBITDA Margin	(%)	0.99	1.82	1.43
PAT Margin	(%)	0.10	0.02	0.53
ROCE	(%)	7.50	10.22	24.74
Total Debt/Tangible Net Worth	Times	3.54	2.28	1.78
PBDIT/Interest	Times	1.13	1.04	1.51
Total Debt/PBDIT	Times	15.11	9.40	6.17
Gross Current Assets (Days)	Days	87	102	61

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

CRISIL, vide release dated December 19, 2017 has declared MI as non-co-operative on account of lack of adequate information required for monitoring of ratings.

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***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	8.00	SMERA B+/Stable
Cash Credit (Proposed)	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA B+/Stable
Bill Discounting (Proposed)	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4

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ABOUT SMERA

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