

Press Release

Mori Spinning Private Limited (MSPL)

August 30, 2018



Rating Reaffirmed

Total Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

*Refer Annexure for detail

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 40.00 Cr. bank loan facilities of Mori Spinning Private Limited (MSPL). The outlook is '**Stable**'.

About the company

MSPL, incorporated in the year 2016, is engaged in manufacturing of spinning yarn. It has set up an open ended spinning unit with 2208 rotors with a production capacity of 19500 Kgs of Open Ended yarn per day. The manufacturing unit is located near Somnath in the district of Amreli, Gujarat. Apart from selling in the local markets, MSPL is also exporting its material through Merchant Exporters on regular basis.

Key rating drivers

Strengths

Established promoters

The promoter directors Mr. Manoj Mori, Mr. Bharat Mori & Mr. Rajni Mori have an extensive experience of handling different businesses. Mr. Manoj Mori, founder of Mori group of companies is engaged in the business of fisheries; operating fishing trawlers, setting up dry fish unit & fish supply business for more than two decades. Mr. Bharat Mori has an experience of managing ice plants for more than a decade. Mr. Rajni Mori, who holds a diploma in business management, has an experience of business management and marketing for more than two decades. He has worked and visited countries like USA, Dubai, Kenya, Uganda, Oman for business and has exposure in marketing and export relating functions. The directors collectively look after the family's agricultural activities. For the purpose of running the spinning business, MSPL has entered into a consultancy services agreement with M/s Cotspin Consultancy having experience in the area of textile industries, especially into spinning. ACUITE believes that the experience of all the promoters of running various businesses successfully backed with the support of technical expertise will benefit MSPL.

Comfortable risk profile & profitability indicators

The financial risk profile is comfortable marked by net worth of Rs.29.09 crore as on 31 March, 2018 (including quasi equity to the tune of Rs.13.23 Cr). The gearing (debt-equity) stood comfortable at 1.24 times as on 31 March, 2018. The total debt of Rs.36.06 crore as on 31 March, 2018 consisting of short term working capital limit of Rs.5.32 crore & remaining was against the term loan. The interest coverage ratio stood at 4.99 times for FY18. The DSCR stood at 4.81 times for FY18. The company has registered an EBIDTA margin of 12.65 per cent for FY18. The company has moderate net cash accruals of Rs.4.04 Cr. given the first year of operations. Going forward, on account of repayment of the term loan and increase in the scale of operations of the company, ACUITE believes that the financial risk profile will remain comfortable in the absence of debt funded capex backed by moderate net cash accruals.

Proximity to raw materials

The site is located strategically near to the raw material production centre of Saurashtra. Transportation of raw material would be economical. Also, Rajkot and Ahmedabad being not far off from the unit, the availability of skilled manpower would not be constraint. The location of the project has a ready access to main raw material, i.e. cotton bales, along with adequate availability of power and labor and is well connected via road and rail with easy access to other raw material.

Proximity to customers

MSPL is engaged in manufacturing of cotton yarn with count ranging from 12's to 20's. Open Ended yarn is predominantly used for denim fabric weaving. Low count yarns are used in a lot of industries and for a wide range of products i.e. from denim products, curtains, bed sheets, terry towels to seat covers, etc. The demand for these products is ever increasing on account of increasing population and improvement in the overall lifestyle of people. Also, the manufacturing unit of MSPL is located in Amreli, Gujarat, which is one of the major denim hubs. Thus, the company is favorably located in close proximity to its customer base.

Weaknesses

Initial stage of operations

MSPL is exposed to risks related to initial stages of operation and geographical concentration in its revenue profile. MSPL has commenced operations from July 2017. Though the company has completed one year of operations, it continues to remain in the initial stages of the operations. The company has achieved a revenue of Rs. 41.35 Cr. for FY18. ACUITE believes that the company's ability to scale up operations will remain crucial in maintaining a stable credit risk profile.

Stiff Competition from existing players

The industry of spinning is marked by the presence of various small to large sized players who have extensive experience in the said industry. MSPL's ability to compete with these players and ability to sustain will remain one of the most crucial criteria.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MSPL.

Outlook: Stable

ACUITE believes that MSPL will maintain a stable outlook over the medium term on account of the extensive experience of its promoters. The outlook may be revised to 'Positive' in case of substantial increase in profitability margins supported by healthy revenue growth or significant improvement in its capital structure owing to equity infusion by promoters. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in profitability margins or deterioration in the financial risk profile due to debt-funded capital expenditure or elongated working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18
Operating Income	Rs. Cr.	41.35
EBITDA	Rs. Cr.	5.23
PAT	Rs. Cr.	0.87
EBITDA Margin	(%)	12.65
PAT Margin	(%)	2.09
Return on Capital Employed (RoCE)	(%)	4.90
Total Debt/Tangible Net Worth (Gearing)	Times	1.24
PBDIT/ Interest	Times	4.99
Total Debt/ PBDIT	Times	6.78
Gross Current Assets (Days)	Days	155

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.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
29-Mar-2018	Cash Credit	Long Term	6.00	ACUITE BB/ Stable
	Term Loans	Long Term	32.00	ACUITE BB/ Stable
	Bank Guarantee/ Letter of Guarantee	Short Term	2.00	ACUITE A4+

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Rating/ Outlook
Cash Credit	NA	NA	NA	6.00	ACUITE BB/ Stable (Reaffirmed)
Term Loan	NA	NA	NA	32.00	ACUITE BB/ Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	2.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Manish Saraf Head-Financial Sector Ratings Tel: 022-67141111 manish.saraf@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in
Aditi Shah Analyst - Rating Operations Tel: 022-67141371 aditi.shah@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.