Press Release

Mangal Cotton Mills Private Limited

December 30, 2020

Rating Upgraded

Total Bank Facilities Rated*	Rs.27.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Upgraded from ACUITE B)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long term rating to **'ACUITE BB' (read as ACUITE double B)** from **'ACUITE B' (read as ACUITE B)** on the Rs.27.00 Cr. bank facilities of Mangal Cotton Mills Private Limited (MCMPL). The outlook is **'Stable'**.

Rationale for Revision in Rating

The rating upgrade draws comfort from the growth in the scale of operations of the company as reflected in its revenues of Rs.35.31 Cr. in FY2020 as against Rs.2.48 Cr. in FY2017. The improvement in scale of operations is also supported by improvement in its business and financial risk profile, working capital management and adequate liquidity position of the company.

About the Company

Gujarat based MCMPL was incorporated in 1979 and is promoted by Mr. Motilal Sekhani, Mr. Rinish Sekhani and Mr. Gunjan Sekhani. The company is in the business of dyeing, printing and embroidery on all kinds of cotton, polyester and blended fabrics on job work basis with a manufacturing/processing capacity of 30,000 meters per day.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of MCMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The promoters Mr. Gunjan Sukhani and Mr. Motilal Sekhani and Mr. Rinish Sekhani possesses over three decades of experience in the textile industry. This has helped MCMPL maintain long standing relations with its customer and supplier base.

Acuité believes experienced management and relations with its customer and supplier base will continue to support its business risk profile over near to medium term.

- **Improvement in scale of operations marked by change in business model**

MCMPL, erstwhile known as Rachana Fabrics Private Limited was earlier engaged in renting machineries to its clients to be used for laser multi drive computerized embroidery till February 2018. The company later changed its business model to dyeing, printing and embroidery on all kinds of cotton, polyester and blended fabrics on job work basis. This has helped MCMPL grow its revenue by 142.67 percent CAGR during the FY2017-2020 period. The revenue of the company increased to Rs.35.41 Cr. in FY2020 from Rs.2.48 Cr. in FY2017. The increase in revenue from operations was also on account of increase in its manufacturing/processing capacity to 30,000 meters per day in FY2020 from 20,000 meters per day in FY2017.

Acuité believes that the ability of the firm to sustain the growth in its scale of operations will be the key rating sensitivity factor over the near to medium term.

- **Moderate financial risk profile**

MCMPL has moderate financial risk profile marked by moderate tangible net worth and gearing, and comfortable debt protection metrics.

The tangible net worth of the company stood at Rs.16.79 Cr. as on March 31, 2020 as against Rs.16.02 Cr. as on March 31, 2019. The company follows a moderate financial policy as reflected in its Gearing (Debt to Equity) of 0.87 times as on March 31, 2020 as against 1.20 times as on March 31, 2019. The debt profile comprises of long term loans and fund based working capital facilities availed. The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 1.15 times as on March 31, 2020.

The debt protection metrics remain comfortable and have improved on Y-O-Y basis. The ICR (Interest Coverage Ratio) stood at 4.14 times as on March 31, 2020 as against 2.66 times as on March 31 2019 and the DSCR (Debt Service Coverage Ratio) stood at 1.55 times as on March 31, 2020 as against 1.92 times as on March 31, 2019. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.34 times as on March 31, 2020 (Provisional) as against 0.16 times as on March 31, 2019.

Acuité believes that the financial risk profile of the company is expected to remain moderate in the near to medium term on account of moderate net worth and gearing, and comfortable debt protection metrics.

- **Moderate working capital management**

MCMPL has moderate working capital management marked by improvement in GCA of 100 days for FY2020 as against 137 days for FY2019. The improvement in GCA is driven by improvement in the Inventory of 26 days for FY2020 as against 44 days for FY2019 and improvement in Debtors of 75 days for FY2020 as against 91 days for FY2019.

The Creditors too have improved to 49 days for FY2020 as against 82 days for FY2019. The current ratio stands moderate at 1.44 times as on March 31, 2020 while the working capital limits remain utilised at an average of ~66 percent for the 8 month period till November, 2020.

Acuité believes that the working capital management of MCMPL is expected to remain at moderate levels in the near to medium term and will remain key rating sensitivity factor.

Weaknesses

- **Highly fragmented industry with intense competition and profitability susceptible to fluctuations in input cost**

MCMPL has a presence in highly fragmented and competitive textile industry characterised by a large number of organised and unorganised players, thus limiting its bargaining power in terms of pricing and credit terms with its suppliers and customers. Moreover, MCMPL is also susceptible to fluctuation in raw material prices thus affecting the profitability margins of the company.

Acuité believes that the highly fragmented and competitive industry along with variation in raw material prices will remain a key concern for the company going ahead.

- **Deteriorating operating performance on account of Covid-19**

MCMPL's operations have been moderately impacted by the Covid-19 pandemic, which has impacted the company's ability to generate revenues at FY2020 levels in the current year. The revenues are expected to improve gradually on a month on month basis due to improving business conditions the total revenue for FY2021 is expected to deteriorate by around ~20 percent on account of reduced business activity during the lockdown period.

Acuité believes that while the revenues are expected to deteriorate in the near term due to the impact of COVID-19, the ability of the company to improve its scale of operations in FY2022 will be key monitorable.

Liquidity position: Adequate

MCMPL has adequate position marked by moderate net cash accruals vis-à-vis its maturing debt obligations and moderate utilisation of its working capital facilities. The company generated cash accruals of Rs.5.00 Cr. for FY2020 as against Rs.2.99 Cr. for FY2019 vis-à-vis its maturing debt obligations of Rs.3.07 Cr. in FY2020 and Rs.2.65 Cr. in FY2019. The working capital limits remain utilised at an average of ~66 percent for the 8 months period till November, 2020. While the cash accruals of the company are expected to decline in FY2021 due to the impact of Covid-19, the same are expected to be back to normal from FY2022. The NCA/TD stood at 0.34 times as on March 31, 2020 and the company maintained unencumbered cash and bank balances of Rs.0.08 Cr. as on March 31, 2020.

Acuité believes the liquidity is expected to remain adequate in the near to medium, Howbeit the working capital management in the near to medium term will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company

Material Covenants

None

Outlook: Stable

Acuité believes that MCMPL will maintain a 'Stable' outlook in the near to medium term on account of its extensive experience of the promoters in the business. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the company registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	35.41	26.47
PAT	Rs. Cr.	0.77	0.12
PAT Margin	(%)	2.17	0.44
Total Debt/Tangible Net Worth	Times	0.87	1.20
PBDIT/Interest	Times	4.14	2.66

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

None

Any other information

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
30-Sep-2020	Term Loan	Long Term	1.72	ACUITE B (Indicative)
	Proposed Bank Facility	Long Term	25.28	ACUITE B (Indicative)
04-Jul-2019	Term Loan	Long Term	1.72	ACUITE B (Indicative)
	Proposed Bank Facility	Long Term	25.28	ACUITE B (Indicative)
20-Apr-2018	Term Loan	Long Term	1.72	ACUITE B / Stable (Assigned)

	Proposed Bank Facility	Long Term	25.28	ACUITE B / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	May, 2016	8.84%	June, 2021	0.22 (Revised from 1.72)	ACUITE BB / Stable (Upgraded from ACUITE B)
Term Loan	May, 2018	8.84%	June, 2026	8.20	ACUITE BB / Stable (Assigned)
Term Loan	July, 2018	10.14%	September, 2025	5.02	ACUITE BB / Stable (Assigned)
Cash Credit	Not Applicable	10.14%	Not Applicable	4.80	ACUITE BB / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.76 (Revised from 25.28)	ACUITE BB / Stable (Upgraded from ACUITE B)

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About Acuité Ratings & Research:

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