

Press Release

Mahesh Kumar Spinning Mills Private Limited

June 05, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.20 Cr.
Long Term Rating	ACUITE B / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.10.20 crore bank facilities of MAHESH KUMAR SPINNING MILLS PRIVATE LIMITED. The outlook is '**Stable**'.

Mahesh Kumar Spinning Mills Private Limited (MSMP), incorporated in 2002, is primarily engaged in the manufacturing of cotton yarn and hosiery cloth. The manufacturing facility is located in Tirupur (Tamil Nadu) with 96 knitting machines and 14112 spindles. It manufactures cotton yarn with counts 20s to 30s. It also has wind mills with installed power generation capacity of 2.5 mega-watt (MW), and solar power plant with capacity 300 KW in and around Coimbatore (Tamil Nadu).

Key Rating Drivers

Strengths

• Experienced management

MSMP is promoted by Mr. R Balasubramaniam and his son, Mr. B Senthil Kumar. The day to day operations of the entity is managed by Mr. B Senthil Kumar under the supervision of his father. Mr. B Senthil Kumar possesses around two decades of experience and Mr. R Balasubramaniam possess around four decades of experience in the textile business. Acuité believes that MSMP will benefit from the promoter's experience over the medium term.

• Average financial risk profile

The financial risk profile is marked by moderate net worth and debt protection metrics though underpinned by high gearing (debt-to-equity) levels. The net worth stood at Rs.10.45 crore as on 31 March, 2017; its expected at about Rs.10.93 crore on provisional basis. The gearing is high at 1.80 times (Provisional) in FY2018, improved from 2.26 times in FY2016 due to decline in short term facilities from Rs.10.11 crore in FY2016 to Rs.6.31 crore in FY2018. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 1.88 times and 2.34 times respectively for FY2017. Acuité believes that the financial risk profile is expected to be at similar levels due to moderate revenues with sizeable repayment obligations over the medium term.

Weaknesses

• Volatile revenue base

The company's top line remained volatile from FY2015-FY2018. The company reported revenue of Rs.33.17 crore (Provisional) for FY2018 as compared to Rs.39.97 crore in FY2017. The decline in operating income was mainly attributed to stagnant / declining growth in the ready-made-garment (RMG) segment for the Indian players in the overseas market. As a cascading effect, the same has impacted the revenues of MSMP. Acuité believes that the operating income is likely to see a marginal growth over the medium term backed by expected improvement for the RMG players over the medium term.

• Working capital intensive operations

The operations are working capital intensive as evident from its Gross Current Assets (GCA) days of 280 as on March 31, 2018 (Provisional) as against 235 days as on March 31, 2017. The inventory days ranged from 80 days to 110 days and debtor days ranged from 107 days to 174 days during FY15-FY18. Delay in payments from the end user industries (readymade garments) due to slowdown in demand has led to increase in receivable levels. This resulted in full utilisation of its bank lines for the past six months through March 2018. Further, its cash accruals of about Rs.2.4 crore in FY2018 are tightly matching to its repayment obligations of Rs.2.41 crore. Acuité believes that any further stretch in its working capital cycle will exert further pressure on the liquidity profile of MSMP over the medium term.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of MSMP to arrive at this rating.

Outlook: Stable

Acuité believes that the outlook on the rated facilities of MSMP will remain 'Stable' over the medium term on account of its experienced management and long standing presence in textile business. The outlook may be revised to 'Positive' in case of better-than-expected growth in revenues and profitability while improving its working capital cycle or liquidity by capital infusion. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its liquidity owing to increase in its receivable position or higher inventory levels.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	39.97	34.90	41.44
EBITDA	Rs. Cr.	5.64	6.03	7.08
PAT	Rs. Cr.	0.58	0.71	0.81
EBITDA Margin	(%)	14.10	17.28	17.10
PAT Margin	(%)	1.46	2.04	1.95
ROCE	(%)	11.03	10.34	21.62
Total Debt/Tangible Net Worth	Times	1.99	2.26	2.55
PBDIT/Interest	Times	1.88	2.34	2.56
Total Debt/PBDIT	Times	3.90	3.71	3.45
Gross Current Assets (Days)	Days	235	238	187

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)

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	4.60	ACUITE B / Stable
Working capital demand loan (WCDL)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4

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About Acuité Ratings & Research:

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