

Press Release

MEENAR INDUSTRIES LIMITED

August 23, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.13 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 13.13 crore bank facilities of MEENAR INDUSTRIES LIMITED (MIL). The outlook is '**Stable**'.

Meenar Industries Limited was incorporated in 2007 and commenced its operations in 2015. The company is engaged in manufacturing of 100 percent polyester yarn with count ranging from 150, 300 and 900. The manufacturing unit is located in Varanasi and installed capacity is around 15,000 MTPA. The company is also engaged in trading of saree which contributes around 40 percent of the total revenue.

Analytical Approach

For arriving at the ratings, Acuite has combined the business and financial risk profiles of Meenar Industries Limited (MIL) and Meenar Polydyed Yarn Limited (MPYL). As the two companies, collectively referred to as the Meenar group (MG), are in the same line of business, and under the same promoter group and management. Further, the companies have significant operational linkages with each other. Further, the management has confirmed that the two companies will be merged going forward.

Key Rating Drivers

Strengths

• Moderate financial risk profile

MG's financial risk profile is moderate marked by tangible net worth of Rs.18.80 crore as on 31 March, 2018 (Provisional) as against Rs.18.20 crore in the previous year. The debt-equity ratio is comfortable at 1.82 times as on 31 March, 2018 (Provisional) as against 1.72 times in the previous year. The total debt of Rs.34.14 crore as on 31 March, 2018 (Provisional) includes long term debt of Rs.10.71 crore, short term borrowings of Rs.13.95 crore and interest-free unsecured loan of Rs.9.48 crore from related parties. The coverage indicators are comfortable with interest coverage ratio (ICR) at 3.15 times for FY2018 (Provisional) as against 2.57 times in the previous year. The debt service coverage ratio (DSCR) stood at 1.60 times for FY2018 (Provisional) as against 1.65 times in the previous year. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.07 times as on 31 March, 2018 (Provisional) as against 1.99 times in the previous year. Acuite expects the group to maintain comfortable financial risk going forward in the absence of major debt funded capex plan.

Weaknesses

• Modest scale of operations

The operations of the group is moderate as the operating income stood at Rs.66.96 crore for FY2018 (Provisional) as against Rs.68.35 crore in the previous year. The stagnancy in operating income is mainly on account of slowdown in orders from customers due to GST implementation. However, Acuite expects the group to report moderate growth going forward on account of improvement in customer orders.

- **Working capital intensive nature of operations and stretched liquidity position**

The operations of the company are working capital intensive in nature as same is reflected in Gross Current Assets (GCA) of around 148 days in FY2018 (Provisional) as against 117 days in the previous year. The stretched GCA days are on account of the stretched debtor days as same stood at 99 for FY2018 (Provisional) and 52 days in FY2017. The stretch in debtors days is due to the extension in the credit period offered to customers to get orders. Further, the average bank limit utilisation of the group stood at around 88 percent during the last six months ended on 30 June, 2018. Going forward, the group's ability to effectively manage its operating cycle and liquidity position will be key rating sensitivity factor.

- **Presence in highly competitive and fragmented industry**

Meenar group operates in a highly competitive textile industry with several unorganised players.

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

The main raw material for Meenar group is partially oriented yarn (POY) and Polyester chips; the prices of which are linked to crude oil prices. The raw material cost constitutes around 70 percent of the total sales in FY2018 (Provisional) as against around 72 percent in the previous year. Hence, any change in the raw material price is likely to impact the margins of MG.

Outlook: Stable

Acuite believes that the Meenar Group will continue to maintain a 'Stable' outlook over the medium term on account of its established presence and extensive experience of the promoters in the textile industry. The outlook may be revised to 'Positive' in case the group registers higher-than-expected revenues and profitability while managing the operating cycle effectively. Conversely, the outlook may be revised to negative if there is steep decline in revenues and profitability or deterioration in financial risk profile owing to higher than expected working capital requirements.

About the Group

Meenar Group (MG), established in 2003 is engaged in spinning, processing of yarn, weaving and trading of sarees. The group provides diversified products including yarn, fabric, sarees, among others. The group is based in Varanasi (Uttar Pradesh). MG comprises of Meenar Industries Limited and Meenar Polydyed Yarn Limited. The group is promoted by Alam family and has presence of more than fifteen years in the textile industry.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	66.96	68.35	64.33
EBITDA	Rs. Cr.	9.04	8.16	6.21
PAT	Rs. Cr.	0.62	0.35	0.25
EBITDA Margin	(%)	13.51	11.94	9.65
PAT Margin	(%)	0.92	0.51	0.38
ROCE	(%)	7.33	7.50	5.79
Total Debt/Tangible Net Worth	Times	1.82	1.72	1.77
PBDIT/Interest	Times	3.15	2.57	2.56
Total Debt/PBDIT	Times	3.77	3.83	5.09
Gross Current Assets (Days)	Days	148	113	85

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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)

Not Applicable

*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	4.30	ACUITE BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	7.63	ACUITE BB- / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE BB- / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-67141111 aditya.gupta@acuite.in Shashikala Hegde Senior Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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