# Press Release

**Meenar Polydyed Yarns Limited**

August 24, 2018

**Rating Assigned**

| | |
|---|---|
| **Total Bank Facilities Rated*** | Rs. 8.57 Cr. |
| **Long Term Rating** | ACUITE BB- / Outlook: Stable |

** Refer Annexure for details*

**Rating Rationale**

Acuité has assigned long-term rating of '**ACUITE BB-**' **(read as ACUITE double B minus)** to the Rs.8.57 crore bank facilities of Meenar Polydyed Yarns Limited (MPYL). The outlook is '**Stable**'.

Meenar Polydyed Yarn Limited is a Varanasi based company established in 2003 by the Varanasi based Alam family. The company is engaged is processing of polyester yarn and undertakes various processes such as texturizing, twisting, dyeing and coning. The company has also set-up looms and manufactures fabric which contributes around 10 percent to the total revenue of the company. Around 80 percent of the purchases are made from the group company i.e. Meenar Industries Limited and remaining from suppliers located in Surat (Gujarat).

## Analytical Approach

For arriving at the ratings, Acuité has combined the business and financial risk profiles of Meenar Polydyed Yarn Limited (MPYL) and Meenar Industries Limited (MIL). 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

- **Established presence in the textile industry and experienced management**
  MG is promoted by the Varanasi-based Alam family who possess more than three decades of experience in the textile industry. The family was earlier engaged in trading of yarn; later they started processing of polyester, cotton and viscose yarn with the establishment of Meenar Polydyed Yarn Limited (MYPL) in 2003. Subsequently, the group started manufacturing of 100 percent polyester yarn by setting-up a unit under Meenar Industries Limited (MIL) as a part of its backward integration strategy. The unit is located at Varanasi (Uttar Pradesh) with 15,000 MTPA capacities and derives around 50 percent of its revenue through sales to MYPL. The group mainly caters to the weavers located in and around Varanasi as it is considered to be the weaver's hub. The processed polyester yarn is used for weaving of fabric for saree, dress material furnishings, among others. The established presence of the group and experienced promoters has helped the group to maintain long standing relations with its customers and suppliers.

- **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 in FY2018 (Provisional) as against 2.57 times in the previous year. The debt service coverage ratio (DSCR) stood at 1.60 times in 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. Acuité expects the group to maintain comfortable financial risk profile going forward in the absence of major debt funded capex plan.

## Weaknesses

- **Modest scale of operations**

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

- **Working capital intensive nature of operations**

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 respectively for FY2017. The stretch in debtor 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 changes in the raw material prices are likely to impact the margins of the group.

## Outlook: Stable

Acuité 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 a 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 and weaving and trading of sarees. The group provides diversified products including yarn, fabric, sarees. The group is based at 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
- 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 | 7.28 | ACUITE BB- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.08 | ACUITE BB- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE BB- / Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 0.71 | ACUITE BB- / Stable |

## Contacts

| Analytical | Rating Desk |
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**About Acuité Ratings & Research:**
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