Press Release

MADHOK HOSIERY FACTORY

August 29, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 8.50 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 plus)** to the Rs. 8.50 crore bank facilities of MADHOK HOSIERY FACTORY (MHF). The outlook is **'Stable'**.

Madhok Hosiery Factory (MHF) was established in 1984 as a partnership firm by Mr. Amarjeet Madhok. His sons, Mr. Rakesh Madhok, Mr. Pawan Madhok and Mr.Vinod Madhok are the current partners. The firm is engaged in manufacturing of knitted garments such as T-shirts, shirts, bawa suits and pajamas. MHF sells under its own brands named 'Moments T-shirts', 'T-Fit', 'Pajama', 'Pouch', 'Blue Bear'.

Analytical Approach

Acuité has considered the business and financial risk profile of Madhok Hosiery Factory to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The Punjab-based MHF was established in 1990, thereby establishing track record for more than two decades. The current partners have more than three decades of experience in the textile industry. MHF has, thus, developed healthy relationships with customers and suppliers. Acuité believes that MHF will continue to grow their business profile on the back of established track record and experienced management in the textile industry.

- **Healthy financial risk profile and Y-o-Y revenue growth**

The financial risk profile of MHF is healthy marked by tangible net worth of Rs.18.21 crore as on 31 March, 2018 (Provisional), which includes Rs.8.14 crore of unsecured loans from promoters considered as quasi equity, as against Rs.13.74 crore as on 31 March, 2017. The debt/equity ratio stood at 0.43 times as on 31 March, 2018 (Provisional) as against 0.18 times as on 31 March, 2017. The total debt of Rs.7.79 crore outstanding as on 31 March, 2018 (Provisional) comprises Rs.1.09 crore as term loan from bank and Rs.6.69 crore as working capital borrowing from the bank. Interest Coverage Ratio is healthy at 13.93 times in FY2018 (Provisional) as against 10.84 times in FY2017. Total Outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 1.31 times as on 31 March, 2018 (Provisional) as against 0.77 times as on 31 March, 2017. The net cash accruals stood at Rs.4.32 crore in FY2018 (Provisional) as against Rs.2.91 crore in FY2017. Further, MHF witnessed healthy growth in revenue in FY2018 (Provisional) to Rs.150.43 crore as against Rs.50.03 crore IN FY2017 and Rs.25.60 crore IN FY2016. Acuité believes that the firm's ability to sustain its financial risk profile on the basis of healthy accruals in the medium term and sustain the current business risk profile would be a critical rating sensitivity factor.

Weaknesses

- **Declining operating profitability**

The operating margins declined to 3.10 percent in FY2018 (Provisional) from 6.16 percent in FY2017 and 4.94 percent in FY2016 on account of increasing sales and advertisement expenses. Also, PAT margins stood at 2.51 percent in FY2018 (Provisional) as against 3.43 percent in FY2017 and 3.18 percent in FY2016. The ability of the firm to scale up operations while improving profitability will be a factor of key rating sensitivity.

- **Competitive and highly fragmented industry**
  MHF operates in a highly fragmented industry with limited entry barriers wherein the presence of a large number of players in the organised sector with powerful brands limits the bargaining power of the firm with customers.

- **Risk related to ongoing capex plan**
  MHF is undertaking a debt-funded capex plan during the FY2019. The project cost is Rs.9.25 crore which was funded through a mix of bank loan of Rs.5.75 crore and equity addition of Rs.3.50 crore. MHF is adding new machinery in order to increase capacity. The project is expected to be completed by July 2019. Thus, MHF is exposed to significant project execution risk in case of time and cost overruns or delay in debt tie-up.

Outlook: Stable

Acuité believes that MHF will maintain a 'Stable' outlook over the medium term on the back of established operations and long standing experience of the partners in the business. The outlook may be revised to 'Positive' in case of significant improvement in the scale of operations and accruals, while maintaining its debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in profitability and accruals, or larger than expected debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	150.40	52.03	25.60
EBITDA	Rs. Cr.	4.66	3.21	1.26
PAT	Rs. Cr.	3.77	1.79	0.81
EBITDA Margin	(%)	3.10	6.16	4.94
PAT Margin	(%)	2.51	3.43	3.18
ROCE	(%)	19.48	14.30	8.32
Total Debt/Tangible Net Worth	Times	0.43	0.18	0.21
PBDIT/Interest	Times	13.93	10.84	7.41
Total Debt/PBDIT	Times	1.67	0.76	1.79
Gross Current Assets (Days)	Days	91	147	182

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

Not Applicable

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

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
Term loans	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE BB+ / Stable

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About Acuité Ratings & Research:
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