

Press Release

M.S. Tex

September 04, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.7.00 Cr.
Long Term Rating	ACUITE B/Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B** (read as **ACUITE B**) to the Rs.7.00 crore bank facilities of M.S. Tex (MST). The outlook is '**Stable**'.

MST was established as a partnership firm in 2008 with two partners, namely, Mr. M Ganeshan and his wife, Mrs. G Chandrakala. The firm is primarily engaged in the trading of hosiery yarn and fabric for garments. The operations of the firm are managed by Mr. M Ganeshan and the firm deals in 100% Cotton, Polyester and Blended Yarns.

Analytical Approach

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

Key Rating Drivers:

Strengths:

- Experienced management with a long track record in yarn trading:**

The promoters and their family members are in this line of business for over three decades. This has helped the firm to establish its position in the domestic market and enabled it to leverage its established relations with its suppliers and customers. In 2018, the firm partly started handling volumes on commission basis while continuing trading business model; as a result, the revenues have shown declining trend from Rs.64.50 crore in FY2017 to about Rs.36.50 crore in FY2018 (Provisional). Acuité believes that the firm is expected to benefit from the partners' established presence and the relationship with the stakeholders in maintaining its stable business risk profile over the medium term.

- Efficient working capital management**

The firm's operations are efficiently managed as marked by Gross Current Assets (GCA) of about 100 days historically for past three years through FY2018 (Provisional); comprise of inventory days of about a month and extends credit of about two months to its debtors. Being trading nature of operations, the working capital operations continues to be efficient at these levels. Though working capital requirements are expected to increase with the increasing scale of operations, but Acuité believes that operations continue to be on moderate levels.

- Comfortable financial profile**

The firm's financial risk profile is marked by comfortable gearing (debt-to-equity) and total outside liabilities to total net worth (TOL/TNW) and average debt protection metrics though net worth is modest. The net worth is modest at about Rs.3.74 crore (Provisional) as on March 31, 2018, which is low on account of modest accretion to reserves. The gearing and TOL/TNW are comfortable at 1.27 times 1.85 times (Provisional) as on March 31, 2018 (Provisional). The debt protection metrics are average marked by of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 0.08 times and 1.74 times respectively for FY2018 (Provisional). Acuité believes that the financial risk profile is expected to be at similar levels over the medium term as they are conservative on debt policy.

Weaknesses:

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- Modest scale of operations with low value-added nature of operations resulting in thin profit margins:**

The yarn trading business is characterised by low entry barriers, resulting in the presence of multiple players and consequently high competition, which has impacted the trading margins. The firm reported OPM of Rs.0.72 crore (1.96 percent) and NPM of Rs.0.34 crore (0.93 percent) in FY2018 (Provisional). Also, its operations are modest with trading revenue of Rs.64.5 crore in FY2017 and about Rs.36.55 crore (dip owing to commission business partly, rather than trading volumes). MST is comparatively a small sized player in the highly fragmented industry and faces competition from larger players located in its vicinity putting pressure on the margins.

Outlook: Stable

Acuité believes that M.S Tex will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters in cotton Industry. The outlook may be revised to 'Positive' in case of substantial growth in revenues while improving its profitability. The outlook may be revised to 'Negative' in case order inflow is lower than expected, or if a stretch in the working capital cycle weakens its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.53	64.55	55.01
EBITDA	Rs. Cr.	0.72	1.22	0.93
PAT	Rs. Cr.	0.34	0.70	0.61
EBITDA Margin	(%)	1.96	1.88	1.70
PAT Margin	(%)	0.93	1.09	1.10
ROCE	(%)	9.81	12.90	22.48
Total Debt/Tangible Net Worth	Times	1.27	1.62	1.52
PBDIT/Interest	Times	1.74	2.56	2.64
Total Debt/PBDIT	Times	5.05	4.71	5.09
Gross Current Assets (Days)	Days	98	77	100

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-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.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	6.79	ACUITE B/ Stable (Assigned)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.21	ACUITE B/ Stable (Assigned)

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About Acuité Ratings & Research:

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