



Press Release

Umed Tex Fab Private Limited

October 25, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 15.91 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 BB plus) on the Rs. 15.91 crore bank facilities of UMED TEX FAB PRIVATE LIMITED. The outlook is '**Stable**'.

Incorporated in 2005, Umed Tex Fab Private Limited is Maharashtra-based company promoted by the Malu family. The company is engaged in weaving of yarn for its group company Umed Sizers on job work basis. The company is promoted by Mr. Ganesh Malu, Mr. Shubash Malu, Mr. Satish Malu and Mr. Nitin Malu. The company has its manufacturing unit located in Kolhapur with weaving capacity of 1, 40, 00,000 meters per annum.

The Maharashtra-based, Umed Group was established in 1964 by late Mr. Mulchand Malu by producing cloth on rented looms. Later, it was expanded to automated looms with high speed sizing looms and exporting to countries like Canada, USA, UK and China.

Analytical Approach

Acuité has considered consolidation of business and financial profiles of Umed Tex Fab Private Limited and Umed Sizers together known as 'Umed Group'. The consolidation is due to the common management, strong operational and financial synergies within the group.

Key Rating Drivers

Strengths

• Experienced management

Umed group has been associated with textile industry for over four decades. Promoted by late Mr. Mulchand Malu, the group is currently managed by the Malu family. The promoters Mr. Ganesh Malu, Mr. Shubash Malu, Mr. Satish Malu and Mr. Nitin Malu possess vast experience of more than two decades in this textile industry. The company is engaged in weaving of yarn for its group company Umed Sizers on job work basis. Umed Sizers is engaged in manufacturing and exporting of woven fabrics.

Acuité believes that the group will continue to benefit from its experienced management which has helped it to maintain long standing relations with its customers and suppliers.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs. 21.47 crore as on 31 March, 2018 as against Rs. 15.06 crore in the previous year. The increase in capital is marked by additions of funds by the promoters. Also, the net worth includes unsecured loan of Rs. 1.86 crore as on 31 March, 2018 from promoters which are subordinated to bank debt. Hence, Acuité has treated them as quasi equity. The gearing stood at 0.99 times as on 31 March, 2018 as against 1.46 times in the previous year. The total debt of Rs. 21.17 crore includes term loan from bank of Rs. 9.73 crore, working capital borrowings of Rs. 10.54 crore and unsecured loan of Rs. 0.90 crore. Interest Coverage Ratio (ICR) stood at 2.44 times in FY2018 as against 4.92 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.72 times as on 31 March, 2018 as against 2.65 times in the previous year. The net

cash accruals to total debt (NCA/TD) stood at 0.29 times in FY2018 compared to 0.41 times in FY2017.

Going forward, Acuité believes that the group's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

- **Comfortable working capital cycle**

Group's working capital cycle has remained comfortable at 64 days in FY2018 against 57 days in FY2017. Gross current assets (GCA) days stood at 87 in FY2018 against 91 in FY2017. Group had an inventory holding period of 15 days in FY2018 as against 21 days in FY2017. The collection period stood at 61 days in FY2018 against 62 days in FY2017. The average cash credit utilization for the past six months stood at ~80 percent.

Acuité believes that the group will continue to effectively manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

- **Modest scale of operations**

Umed group has modest scale of operations marked by operating income of Rs. 138.12 crore in FY2018 as against Rs. 124.92 crore in FY2017 and Rs. 104.07 crore in FY2016. The group has booked revenue of Rs. 64.00 crore for April to August, 2018. Further, the group holds an order book position of Rs. 60.00 crores. The group's operations are modest as the group is exposed to intense competition prevalent in the highly fragmented Indian textile industry.

Acuité believes that the group ability to withstand the competition from the countries like China will be key sensitivity factor.

- **Fluctuating operating margins**

The group's operating margins have shown a fluctuating trend of 7.24 percent in FY2018 as against 9.58 percent in FY2017 and 6.71 percent in FY2016. The firm reported Profit after Tax (PAT) margin of 1.68 percent in FY2018 against 4.97 percent in FY2017 and 4.42 percent in FY2016. The fluctuation in operating margins is marked by fluctuations in raw material prices to an extent.

Acuité believes the firm's ability to register growth in revenue while maintaining adequate profitability will be key sensitivity factor.

Outlook: Stable

Acuité believes the group will maintain a 'Stable' business risk profile over the medium term. The group will continue to benefit from its experienced management, financial risk profile and comfortable working capital. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the group's revenues or profit margins, or in case of deterioration in the company's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	138.12	124.92	104.07
EBITDA	Rs. Cr.	10.00	11.97	6.98
PAT	Rs. Cr.	2.32	6.21	4.60
EBITDA Margin	(%)	7.24	9.58	6.71
PAT Margin	(%)	1.68	4.97	4.42
ROCE	(%)	16.16	29.56	46.13
Total Debt/Tangible Net Worth	Times	0.99	1.45	1.58
PBDIT/Interest	Times	3.35	4.92	4.77
Total Debt/PBDIT	Times	2.07	1.76	2.24
Gross Current Assets (Days)	Days	87	91	87

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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	5.50	ACUITE BB+/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	3.01	ACUITE BB+/ Stable
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	7.40	ACUITE BB+/ Stable

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About Acuité Ratings & Research:

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