Press Release

Manohar Capital Markets Limited

February 04, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 55.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs. 55.00 cr. bank facilities of Manohar Capital Markets Limited (MCML). The outlook is **'Stable'**.

MCML is a Surat (Gujarat) based company incorporated in 1995. MCML is promoted by Mr. Alok Tayal, Mr. Deepak Tayal and Mrs. Pooja Tayal. MCML is engaged in trading of textile products such as Polyester Yarn, Viscose Yarn, Nylon Yarn, Cotton Yarn, Cotton Yarn and Polyester Fabric (Un-dyed & Dyed).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**
  MCML benefits from its long track record of operations having been in business since 1995. The promoters of the company have over three decades of experience in the textile trading industry. Thus, the company has been able to forge long lasting relationships with its customers and suppliers.

- **Moderate financial risk profile**
  The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at around Rs.25.80 crore as on 31 March, 2018 as against Rs.21.01 crore as on 31 March, 2017. The improvement in net worth is on account of addition in reserves and equity infusion of Rs.0.91 crore by the promoters in form of quasi equity to support the incremental working capital requirements. The company has followed a moderately conservative financial policy.
  The gearing of the company has further improved to around 1.84 times as on March 31, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.92 times as on 31 March, 2018 as against 4.42 times as on 31 March, 2017. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) remained moderate at 1.92 times in FY2018 and 1.81 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.09 times as on 31 March, 2018 as against 0.08 times as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.59 times for FY2018 as against 1.52 times in FY2017. Acuité believes that the financial risk profile of MCML will continue to remain moderate over the medium term on account of its improving scale of operations and conservative financial policy.

- **Comfortable working capital cycle**
  MCML has moderate working capital operations marked by Gross Current Assets (GCA) of 73 days as on March 31, 2018 as against 60 days as on March 31, 2017. The inventory levels are at 4 days in FY2018 as against 2 days in FY2017. The debtor levels stood at 68 days as on March 31, 2018 as against 57 days as on March 31, 2017. Moderate working capital management has led to utilisation of working capital limits over the past six months ended October 2018 to the extent of 90-98 percent. Acuité believes that the working capital operations of the company will remain moderate as evident from the operating cycle of the company.

Weaknesses

- **Thin net profit margins**
  Given the trading nature of business, net profit margins remained thin and stood at 0.64 percent in FY2018 against 0.46 percent in FY2017and 0.23 percent in FY2016. The improvement in margins is due to decline in raw material cost as percentage of sales.

- **Competitive and highly fragmented industry**
  MCML operates in a highly fragmented industry with limited entry barriers wherein the presence of large number of players in the unorganised sector limits the bargaining power with customers.

- **Profits are susceptible to fluctuations in raw material prices**
  MCML's margins are highly susceptible to changes in cotton prices and fibre. Price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which restricts bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability. Material cost is ~96 percent of total operating income in FY2018.

Outlook: Stable

Acuité believes that outlook on MCML will remain 'Stable' over the medium term from its established presence in the commodity trading industry and experienced management. The outlook may be revised to 'Positive' if company's scale of operations increases substantially, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if company fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Liquidity Position

MCML has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.50 to 4.30 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.05 - 0.15 crore over the same period. The cash accruals of the group are estimated to remain around Rs.5.00 – 12.00 crore during 2019-21 while its repayment obligations are estimated to be at a minimum due to absence of any long term debt. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 73 in FY 2018. This has led to increased reliance on woring capital borrowings, the cash credit limit in the group remains utilized at 95 percent during the last 12 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.0.06 crore as on March 31, 2018. The current ratio of the group stands healthy at 132 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	603.99	652.42	562.28
EBITDA	Rs. Cr.	12.26	10.74	6.94
PAT	Rs. Cr.	3.87	3.03	1.30
EBITDA Margin	(%)	2.03	1.65	1.24
PAT Margin	(%)	0.64	0.46	0.23
ROCE	(%)	18.35	17.56	14.80
Total Debt/Tangible Net Worth	Times	1.84	2.10	2.42
PBDIT/Interest	Times	1.92	1.81	1.47
Total Debt/PBDIT	Times	3.63	4.01	5.60
Gross Current Assets (Days)	Days	73	60	68

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

CRISIL, vide its press release dated October 16, 2018 had denoted the rating of MCML Limited as 'CRISIL BB+/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Trading entities - http://acuite.in/view-rating-criteria-6.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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE BB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.90	ACUITE BB+/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.60	ACUITE BB+/Stable (Assigned)

Contacts

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