Press Release

Mercury Process

D-U-N-S® Number: 86-093-2506

March 07, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.50 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 plus)** to the Rs. 10.50 crore bank facilities of Mercury Process (MEPR). The outlook is **'Stable'**.

Established in 1987 as a partnership firm, MEPR is involved in dyeing of fabric on a job-work basis. The processing facility is located at Tirupur (Tamil Nadu) with an installed dyeing capacity of 8 tonnes of fabric per day. The firm caters to the dyeing requirements of garment manufacturers primarily in and around Tirupur (Tamil Nadu). Mr. K. Palanisamy, Mr. S. Nachimuthu, Mr. N. Rathinasamy, Mr. V. Solliappan, Mr. P. Rajeswari, Mr. R. Vikram are the partners of the firm.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of MEPR to arrive at the rating.

Key Rating Drivers

Strengths

- **Significant experience of promoters in the textile industry**

  MEPR partners have experience of nearly three decades in the textile industry. Extensive experience of promoters has helped in building healthy relationship with its suppliers and customers to ensure regular supplies, and repeat business. It helped in improving the revenues of the firm to a compound annual growth rate (CAGR) of about 12 percent from Rs.34.93 crore in FY2016 to Rs.43.83 crore in FY2018. The increase in revenue is attributed to increase in customer base year- over-year. Acuité believes that the promoters' experience, vintage of operations, reputed clientele are expected to support in improvement of its business risk profile over the medium term.

- **Moderate financial risk profile**

  MEPR's financial risk profile is moderate marked by healthy capital structure (gearing), moderate total outside liabilities to total net worth (TOL/TNW) and strong debt protection metrics. MEPR's gearing is healthy at 0.83 times as on March 31, 2018 against 0.87 times as on March 31, 2017. TOL/TNW is high at 2.33 times in FY2018 against 1.76 times in FY2017; owing to stretch in its creditors. The net worth is moderate at Rs.9.19 crore as on March 31, 2018 as compared to Rs.10.45 crore as on March 31, 2017. Deterioration in the net worth is owing to withdrawal of capital by the partners. Its operating margins are moderate, though marginally declined year-over-year from 13.19 per cent in FY16 to 11.09 per cent in FY2018.

  Moderate profitability margins coupled with healthy gearing have resulted in healthy debt protection metrics with interest coverage ratio (ICR) of 5.29 times and net cash accruals to total debt of 0.53 times for FY2018. MEPR has reported cash accruals of Rs.4.02 crore in FY2018. It is expected to generate cash accruals in the range of Rs.4.0-5.0 crore over the medium term, against which its repayment obligations are about Rs.1.20 crore and regular annual capex of about Rs.0.50-0.80 crore which gives adequate cushion for the incremental working capital requirements and liquidity. Acuité believes that the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Moderate working capital operations**

  MEPR's operations are moderate as evident from Gross Current Assets (GCA) of 140 days as on March 31, 2018 as against 133 days as on March 31, 2017. Primarily, high due to high receivable days (FY18: 114; FY17:110) and its inventory days being less than a month for past three years. The firm's significant receivable levels led to a high working capital intensity of operations with high utilisation of bank lines at about 92 per cent during the last 6-month period ended December 2018. Further, MEPR has funded the working capital by stretching its creditors which are high at about 204 days as on March 31, 2018 (FY2017:155 days). This lead to low current ratio at 1.0 time in FY2018, deterioration from 1.24 times in FY2016. Acuité believes that the working capital operations of the firm will remain high owing to high receivable days over the medium term.

- **Moderate scale of operations**

  The operations of the MEPR are moderate despite the firm being in this line of business for more than three decades. MEPR reported revenue of Rs.43.83 crore in FY2018 as against Rs.38.41 crore in FY2017 with a growth of 12 percent from FY17 to FY18. The textile industry is highly fragmented in nature, characterised by the presence of a large number of players. This has resulted in intense competition among the players, thereby restricting the pricing flexibility of the firm. Further, the profit margins of the firm are susceptible to fluctuation in prices of key raw materials, i.e. dyes and chemicals. In FY2018, the operating profitability of the firm marginally declined from 13.19 per cent in FY2016 to 11.09 per cent in FY2018 owing to increase in raw material expenses coupled with the limited ability of the firm to pass on the hike in raw-material prices to its customers.

- **Risk of capital withdrawal associated with the partnership nature of the firm**

  MEPR is a partnership firm, any substantial cash withdrawals by the partners is likely to have an adverse impact on the capital structure. There was a history of withdrawal of capital by the partners of the firm both in FY2018 and FY2017.

Liquidity Position:

Liquidity profile of the firm is stretched reflected by high bank line utilization and withdrawal of capital by the partners. MEPR has reported cash accruals of Rs.4.02 crore in FY2018. It is expected to generate cash accruals in the range of Rs.4.0-5.0 crore over the medium term, against which its repayment obligations are about Rs.1.20 crore and regular annual capex of about Rs.0.50-0.80 crore, which gives adequate cushion for the incremental working capital requirements and liquidity. However, in FY2018, the partners have withdrawn capital of about Rs.3.0 crore. Withdrawals of earned profits lead to stretch in its liquidity marked by high bank limit utilisation, stretching its creditors and low current ratio at 1.0 time in FY2018. Retention of profits is a key rating sensitivity factor for improvement of its liquidity going forward.

Outlook: Stable

Acuité believes that MEPR will maintain a 'Stable' outlook over the medium term backed by its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management, or any significant withdrawal of capital by the partners or any significant debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	43.83	38.41	34.93
EBITDA	Rs. Cr.	4.86	4.68	4.61
PAT	Rs. Cr.	2.56	1.78	1.36
EBITDA Margin	(%)	11.09	12.17	13.19
PAT Margin	(%)	5.83	4.63	3.90
ROCE	(%)	19.23	15.37	26.74
Total Debt/Tangible Net Worth	Times	0.83	0.87	1.11
PBDIT/Interest	Times	5.29	3.46	3.09
Total Debt/PBDIT	Times	1.53	1.91	2.42
Gross Current Assets (Days)	Days	140	133	132

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE B+ / Stable

Contacts

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About Acuité Ratings & Research:

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