

Press Release

Moustache Industries Private Limited

December 28, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	ACUITE BBB/Negative (Rating Reaffirmed, Outlook revised from 'Stable')
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and assigned the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.19.00 crore of bank facilities of Moustache Industries Private Limited. The outlook is revised to '**Negative**' from '**Stable**'.

The revision in the outlook to 'Negative' is due to substantial elongation in the working capital management marked by significant increase in gross current asset (GCA) days to 824 days in FY2020 (Prov.) as compared to 477 days in the previous year. This is on account of sharp increase in inventory holding period of 591 days in FY2020 (Prov.) as compared to 273 days in the previous year along with stretched receivables during FY2020 (Prov.). The said deterioration in working capital led to increased utilization of working capital limits, thereby impacting the financial risk profile of the company. The rating continues to reflect the experienced management and moderate brand image of 'Moustache'.

Established in 1984 as Moustache International Private Limited, the company was acquired by Mr. Suraj Kumar Poddar, Mrs. Sushma Poddar and Mr. Rohit Kumar Poddar (Son-in-law of Mr. Ashok Kumar Todi, promoter of Lux Industries Limited, rated at Acuité AA/Positive/A1+) in a slump sale transaction in September 2019 by floating a new entity named Moustache Industries Private Limited. The company is engaged in manufacturing of denim, shirt, t-shirt and winter wear under the brand name of 'Moustache' and 'M Brand'.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of MIPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

The directors of the company Mr. Suraj Kumar Poddar and Mr. Rohit Poddar have extensive business experience in various industries through different organizations. The management team led by Mr. Rohit Poddar is provided support by Mr. Ashok Kumar Todi, Chairman of Lux Industries Limited, who has over three decades of experience in the hosiery business. Further, Lux Industries Limited has also extended full support towards the marketing for the product of Moustache Industries Private Limited. Acuité believes that the support expended by Mr. Ashok Kumar Todi, along with Lux Industries Limited will help the company to maintain a healthy relation with the customers and the suppliers over the medium term.

Established Brand and Distribution network

Moustache Industries Private Limited is engaged in manufacturing and marketing of casual wearing apparels under the brand name of 'Moustache' and 'M Brand' for men and women. The journey of brand 'Moustache' started in 1984 to introduce denim as daily wear garments. The product under the brand name of 'Moustache' and 'M Brand' has presence in more than 40 exclusive brand outlets (EBO) in the eastern part of the country along with 43 multi brand outlets (MBO) including Pantaloons, Shoppers Stop and LuLu. The company also has more than 500 dealers spread across the country, which further help the company to establish its brand presence in different places. Acuité believes that the company's brand visibility would help the company in enhancing its customer base going forward.

Healthy profitability margin

The operating profitability margin of the company stood healthy at 11.37 per cent in FY2020 (Prov.) as compared to 10.73 per cent in the previous year. This improvement in profitability margin is on account of decrease in job work expenses and other manufacturing costs during the period. However, the net profitability margin of the company stood low at 0.98 per cent in FY2020 (Prov.) as compared to (0.47) per cent in the previous year.

Weaknesses

Moderate scale of operation

Though the company has started operation since 1984, the revenue of the company stood moderate Rs.12.21 crore in FY2020 (Prov.) as compared to Rs.15.66 crore in the previous year. The company has booked Rs.7.75 crore till 15th November 2020 (Provisional). The ability of the company to increase its scale of operations while maintaining its profit margins would remain a key rating sensitivity going forward.

Working capital intensive nature of operation

The working capital intensive nature of operation marked by high gross current asset (GCA) days of 824 days in FY2020 (Prov.) as compared to 477 days in the previous year. This increase in gross current asset days is mainly on account of increase in inventory to 591 days in FY2020 (Prov.) as compared to 273 days in the previous year. The inventory levels have increased due to pile up of finished goods during the year end, which coincided with the nation-wide lockdown. Though the lockdown conditions have eased, the company has not been able to dispose of their final product completely. The debtor days of the company is also stood high at 270 days in FY2020 (Prov.) as compared to 226 days in the previous year. The company's inability to significantly improve the working capital management by the end of the current fiscal is likely to result in a negative rating action.

Rating Sensitivity

- Sharp improvement in working capital management led by decrease in inventory levels
- Scaling up of operations
- Sustenance of healthy operating profitability

Material Covenant

None

Liquidity Position: Adequate

Acuité derives comfort from the personal guarantee extended by Mr. Ashok Todi (Chairman of Lux Industries Limited) to the bank facilities of the company, thereby imparting adequate financial flexibility. The current ratio of the company stood moderate at 1.35 times in FY2020 (Prov.). However, the company has moderate liquidity marked by low net cash accruals of Rs.0.40 crore as against nil term debt obligations in FY2020 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 0.36 crore to Rs2.60 crore during 2021-23 against Rs1.27 crore in FY2022 and Rs.1.87 crore in FY2023 of long term debt obligation respectively. The working capital management of the company is marked by Gross Current Asset (GCA) days of 824 days in FY2020 (Prov.). The bank limit has been fully utilized for the last six months ended November 2020. The company maintained unencumbered cash of Rs.0.23 crore as on March 31, 2020 (Prov.). Moreover, the company has availed covid emergency fund of Rs.3.60 crore. The said loan is to be repaid over a period of 4 years including 1 year of moratorium. Hence, Acuité believes that this short term funding will further ease the liquidity position of the company. The company had also availed the loan moratorium till August 2020.

Outlook: Negative

Acuité has revised the outlook to 'Negative' due to significant deterioration in their working capital management with a sharp increase in their inventory levels. The rating may be downgraded in case the company is unable to dispose of their existing inventory leading to a sharp decrease in their stock position or any further decline in turnover of the company leading to dip in the cash accruals. Conversely, the outlook may be revised to 'Stable' in case of improvement in their working capital management, steady turnover levels and improvement in the capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	12.21	15.66
PAT	Rs. Cr.	0.12	(0.07)
PAT Margin	(%)	0.98	(0.47)
Total Debt/Tangible Net Worth	Times	19.63	3.75
PBDIT/Interest	Times	1.46	1.21

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-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios and Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
04- Oct-2019	Proposed Cash Credit	Long Term	9.00	ACUITE BBB/Stable (Assigned)
	Proposed Corporate Loan	Long Term	10.00	ACUITE BBB/Stable (Assigned)

*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	9.00	ACUITE BBB/Negative (Reaffirmed; Outlook revised)
Term Loan	Oct 2019	9.25%	Sep 2027	4.70	ACUITE BBB/Negative (Reaffirmed; Outlook revised)
EPC	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A3+ (Assigned)
SLC	Not Applicable	Not Applicable	Not Applicable	1.80	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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