

Press Release

M S International

March 22, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 26.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) on the Rs.26.00 crore bank facilities of M S International. The outlook is '**Stable.**'

The rating assigned to M S International derives comfort from business experience of promoter's family of over 3 decades in trading business and reputed clientele. The rating, however, is constrained by working capital intensive nature of operations, moderate financial risk profile, and modest scale of business.

About the company

Established in October 2017, M S International is a Gujarat-based partnership firm, where Maaz Suthar and Rehanabnu Salauddin Modasiya are equal partners. The firm is engaged in the business of supplying processed or chips-quality potatoes (known as Lady Rosetta potatoes) to potato chips/wafers manufacturing companies domestically and internationally.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Moderate experience of promoter supported by business experience of family**

M S International, a partnership firm, was established in October 2017 and is led by Maaz Suthar, managing partner of the firm. Though M S International started operations 3 years back, Maaz Suthar is into trading business since the past 5 years and Suthar family has long experience in trading business.

M S Group, owned by Suthar family, is into the trading business from last 38 years. The group started its business by trading of grocery items in a small village of Aravalli district in Gujarat in 1982. Over the years, the group expanded in other trading businesses such as trading of grains, fertilizer and pesticides, among others. The established presence of the group has helped develop good relation with suppliers and clients in the agricultural related businesses, which is also enabling M S International to expand its customer base and to grow.

In October 2017, M S International started its operations with just 1-2 customers and the firm now has more than 15 customers, including some renowned clients like PepsiCo India Holdings Pvt. Ltd. Balaji Wafers, ITC, etc. The firm's revenue also increased to Rs.35.93crore in FY20 from Rs.4.06 crore in FY18.

Acuité believes that the group's strong experience in trading business would continue to support M S International even going ahead.

Weaknesses

- **Working capital intensive nature of Operations**

M S International operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 189 for FY2020 as against 274 days for FY2019. This is due to high inventory holding period. Given the seasonality involved in the business, the firm has to maintain high inventory in the month of February and March, which is the end of Rabi season. This is because the firm is relied on contract farming for procurement of required potatoes (Lady Rosetta).

Inventory days of the firm stood at 103 for FY20 compared to 180 days for FY19. Debtor days for FY20 were 82 as against 58 for FY19. However, better credit terms offered by suppliers give some support. Creditor days for FY20 stood at 112 compared to 131 for FY19. While average bank limit utilization in the last ten months ending January 2021 was moderate at around 43 per cent, bank limit utilization tends to be higher during February to June, which is a peak period of the business.

Going ahead, M S International's GCAdays are expected to remain around 200-210 days during FY21-FY23.

- **Moderate financial risk profile**

M S International has moderate financial risk profile marked by modest net worth level, high gearing level and moderate debt protection matrix. The firm's net worth stood at Rs.2.03 crore as on March 31, 2020 compared to Rs.1.37 crore as on March 31, 2019. The increase in net worth was on the back of higher net profit.

The firm's gearing level (debt to equity) has been on a higher side of around 4 times in the last two years ending March 31, 2020. This was due to higher short-term debt led by rising scale of business. The firm's total debt as on March 31, 2020 stood at Rs.8.19 crore, comprising short-term debt of Rs.6.39 crore and unsecured loans from related parties of Rs.1.80 crore. Going ahead, the firm might require more short-term debt with an expected increase in scale of business. Acuité expects, the firm's debt to equity ratio to be around 6-7 times during FY22-FY23. TOL/TNW stood at around 8 times in the last two years ending March 31, 2020.

Increase in operating profit has kept the firm's coverage indicators at moderate level. Interest coverage ratio of the firm stood at 1.62 times in FY20 compared to 1.55 times in FY19. Going ahead too, ICR is expected to remain around 1.3-1.5 time level over a medium term.

- **Nascent stage of operations coupled with risk of capital withdrawal and fluctuation in foreign exchange rate**

The firm's commenced its operations in 2017 and has achieved revenues of Rs.35.93 crore in FY20 as against Rs.16.27 crore in the previous year. Further, the firm's ability to increase its scale of operations will remain a key to maintain healthy credit profile. Further, the tangible net worth stood at Rs.2.03 crore as on March 31, 2020. Also, being a partnership firm, there is a risk capital withdrawal by partners.

Further, around 50 per cent of the firm's business is from exports and the firm has not availed any hedging instrument to cover foreign exchange risk. So, any adverse change in foreign exchange rate would hurt the overall operating performance and financial risk profile of the firm.

Liquidity Position: Stretched

M S International has stretched liquidity on account of working capital intensive nature of business. Despite the firm's working capital intensive operations as marked by GCA days of 189 for FY20, the average bank limit utilization stood moderate at ~43 per cent in the last ten months ended January 2021. The firm maintained unencumbered cash and bank balances of Rs.0.22 crore as on 31, March, 20. The current ratio stood moderate at 1.25 times as on 31 March, 20.

Further, the firm generated cash accruals of Rs.0.30 crore for FY20, while its maturing debt obligations were nil for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.34 crore to Rs.0.45 crore during FY22-FY23 period against Rs.0.33 crore to Rs.0.44 crore of repayment obligations during the same period. In FY21, the firm had availed term loans to take care of near-term liquidity due to Covid-19-led disruptions.

Rating Sensitivities

- Any further elongation in working capital cycle

Outlook: Stable

Acuité believes that M S International would maintain a 'Stable' outlook over the medium term on account of support from established track record of M S Group and rising scale of operations. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and operating margin. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, resulting in deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	35.93	16.27
PAT	Rs. Cr.	0.28	0.09
PAT Margin	(%)	0.78	0.53
Total Debt/Tangible Net Worth	Times	4.04	4.43
PBDIT/Interest	Times	1.62	1.55

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

None

Any other information

Not Applicable

Any Material Covenants

No major covenants

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	12.00	ACUITE BB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	

About Acuité Ratings & Research:

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