

Press Release

M S International

February 01, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	35.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB-' (read as ACUITE double B minus)** on the Rs.35.00 crore bank facilities of M S International (MSI).

Rationale for rating assigned

The rating assigned takes into consideration the extensive experience of the partners in the aforementioned industry and improvement in business risk profile of the firm along with growth in scale of operations over the years reflected in the performance of FY2022. The rating also factors in the moderate financial risk profile. However, these strengths are partially offset by stretched liquidity position, working capital intensive nature of operations and risk of capital withdrawal and fluctuation in foreign exchange rate.

About the Company

Established in October 2017, M S International is a Gujarat-based partnership firm, where Mr. Maaz Suthar, Mr. Rehanabanu Salauddin Modasiya and Mr. Zaid Tadha are 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. M S International has been awarded the status of Authorised Economic operator and the firm has also applied for star export house certificate

Analytical Approach

Acuite has considered 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 Mr. Maaz Suthar, managing partner of the firm. Though M S International started operations 5 years back, Mr. Maaz Suthar is into trading business since the past 7 years and Suthar family has long experience in trading business. M S Group, owned by Suthar family, is into the trading business from last 40 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 in the domestic market. Out of the firm's total sales, 62 % constitutes exports and balance 38 % constitutes domestic sales.

The revenue of the Firm stood at Rs.77.51 crore in FY2022 registering a growth of ~13 percent YoY compared to revenue of Rs.66.20 crore in FY2021 and Rs.35.93 crore revenue in FY2020. The operating profit margins are stable and stood at 2.20% in FY2022 as against 2.10% in FY2021 and 2.19% in FY2020. The PAT margin stood at 1.18 percent in FY2022 as against 0.83% in FY2021 and 0.78% in FY2020. Furthermore, the operations of the company continued to remain healthy during FY2023 reflected by revenues of Rs.93.17 crore till September 2022 owing to healthy demand.

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

Moderate Financial Risk Profile

MSI has moderate financial risk profile marked by tangible net worth of Rs.10.68 crore as on 31 March, 2022 as against Rs.5.04 crore as on 31 March, 2021 and Rs.2.03 crore as on 31 March 2020. The gearing level of the firm remained moderate at 1.67 times as on 31 March, 2022 as against 2.03 times as on 31 March, 2021 and 4.04 times as on 31 March, 2020. The total debt outstanding of Rs.17.88 crore consists of working capital borrowings of Rs.13.82 crore, unsecured loan from promoters of Rs.0.89 crore and term loan of Rs.3.17 crore as on 31 March, 2022. (The term loan includes covid loans).The coverage ratios of the firm remained moderate with Interest Coverage Ratio (ICR) of 2.34 times for FY2022 against 1.75 times for FY2021 and 1.62 times for FY2020. Also, the Debt Service Coverage Ratio (DSCR) stood at 2.34 times for FY2022 as against 1.75 times for FY2021 and 1.62 times for FY2020. The total outside liabilities to tangible net worth (TOL/TNW) of the firm stood at 4.32 times as on March 31, 2022 against 6.84 times as on March 31, 2021 and 8.23 times as on March 31, 2020. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.05 times for FY2022 as against 0.06 times for FY2021 and 0.04 for FY2020.

Acuite believes that the financial risk profile of the firm will remain moderate on account of absence of any debt funded capex plan.

Weaknesses

Working Capital Intensive Nature of Operations

The operations of the firm are working capital intensive in nature marked by high GCA days of 265 days for FY2022 as against 216 days for FY2021 and 189 days for FY2020. The high GCA days are majorly on account of high inventory levels of 145 days for FY2022 against 160 days for FY2021 and 103 days for FY2020. The debtor days stood at 124 days for FY2022 against 54 days for FY2021 and 82 days for FY2020. The creditor days of the firm stood at 198 days for FY2022 as against 171 days for FY2021 and 112 days for FY2020. Around 80-90% of potato requirement is met through contract farming. The firm gives seeds to farmers (in Punjab). Since maximum potato requirement (80-90%) is met through the contract farming, the firm has to maintain around 4-5 month inventory, resulting in higher inventory and creditors at March end. Yield in contract farming is also higher around 10 times (1 bag of seeds gives around 10 bags of

potatoes). The average utilization of the working capital limits of the company remained on the higher side of ~81.03 percent in last nine months ended September' 22.

Risk of capital withdrawal and fluctuation in foreign exchange rate

The firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Around 62 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.

Rating Sensitivities

- Any further elongation in working capital cycle
- Ability to improve scale of operations

Material covenants

None

Liquidity Position Adequate

MSI has stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.0.98 crore in FY2022 compared against no maturing debt obligations. The cash accruals of the company are estimated to remain around Rs.1.33-1.40 crore during 2023-25 period while its matured debt obligations is estimated to be Rs.1.04 crore during the same period. The average utilization of the working capital limits of the firm remained on the higher side of ~81.03 percent in last nine months ended September' 22. Furthermore, the firm maintains unencumbered cash and bank balances of Rs.0.01 crore as on March 31, 2022 and the current ratio also stood moderate at 1.34 times as on March 31, 2021.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	77.51	66.20
PAT	Rs. Cr.	0.91	0.55
PAT Margin	(%)	1.18	0.83
Total Debt/Tangible Net Worth	Times	1.67	2.03
PBDIT/Interest	Times	2.34	1.75

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>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 May 2022	Cash Credit	Long Term	12.00	ACUITE B+ (Withdrawn)
	Proposed Bank Facility	Long Term	14.00	ACUITE B+ (Withdrawn)
22 Mar 2021	Cash Credit	Long Term	12.00	ACUITE BB- Stable (Assigned)
	Proposed Bank Facility	Long Term	14.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

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