

## Press Release

**Baba Spinners Limited (Erstwhile M R Weaving Mills Private Limited)**

**May 05, 2022**



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	75.64	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	9.60	ACUITE BBB-   Stable   Assigned	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	85.24	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 75.64 Cr bank facilities and has assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 9.60 Cr bank facilities of Baba Spinners Limited (Erstwhile M R Weaving Mills Private Limited) (BSL). The outlook remains '**Stable**'.

The rating on BSL takes cognizance of the sound business risk profile of the company marked by, long standing experience of the promoters, locational advantage due to its presence in the textile cluster of Bhilwara, Rajasthan, steady revenue growth in 11M FY2022, healthy profitability margins and improving cash accruals arising from increasing realizations. These strengths are partly offset by the working capital intensity in BSL's operations and its presence in the highly competitive and fragmented textile industry.

### About the Company

Baba Spinners Limited (Erstwhile M R Weaving Mills Private Limited) (BSL) was incorporated in January, 1997 and is promoted by members of Agarwal family i.e. Mr. Mahesh Kumar Agarwal, Mr. Deepak Kumar Agarwal and Mr. Sharad Kumar Agarwal. BSL began by focusing on the production of several types of synthetic materials for men's clothes. However, in 2016, BSL took a step toward backward integration by taking on a project to set up a spinning plant in Bhilwara with a capacity of 7200 MT and 25900 spindles to produce synthetic yarn with counts of 8 and 60. BSL has 20 distributors and 2 agents, covers 29 states, and sells fabric under the 'Baba Collection' brand and yarn under the 'Baba Spinners' brand. Furthermore, the company has 1.75 MW solar power plant for its captive consumption to reduce power cost and ensure consistent power supply.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of BSL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### Long standing experience of the promoters in the industry

The promoter directors of BSL are Mr. Mahesh Kumar Agarwal, Mr. Deepak Kumar Agarwal, and Mr. Sharad Kumar Agarwal. Mr. Mahesh Kumar Agarwal, who has worked in the industry for over three decades, is in charge of overall management and strategic decision-making. As a result of its longstanding presence in the textile sector and its presence in the Bhilwara textile cluster, the company has developed strong ties with its customers and suppliers, as indicated by its position in a highly competitive market. Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations.

#### Modest but improving scale of operations

The company has reported a revenue de-growth by 36.91 per cent in FY21 to Rs. 89.60 Cr due to loss of sales in the first two quarters of FY2021 on account of the lockdown imposed by Government in the wake of Covid-19. Going forward, company is expected to report significant improvement in revenue supported by the pent-up demand and the pick-up in the demand from end user industries. Consequently, BSL has reported a revenue of Rs 129.29 Cr in 11MFY2022 (provisional) as compared to revenues of Rs. 89.60 Cr in FY2021 on the back significant improvement in the average sales realization of synthetic yarn and synthetic fabrics amidst strong domestic demand. Strong demand coupled with supply constraint owing to closure of 5-6 per cent of capacities due to impact of pandemic is expected to result in stronger spreads in the synthetic yarn business. The company will aggressively pursue the export market in the future. Even in the export market, there is rising demand for Indian Yarn. The company's exports have increased from Rs 1 Cr in FY 2021 to around Rs 6 Cr in FY 2022. In FY 2023, this is likely to climb to roughly Rs 10 Cr. By increasing exports, management hopes to diversify its business risk while simultaneously improving its negotiation power in the domestic market.

#### Above average financial risk profile

The financial risk profile of the company is marked by moderate networth, high gearing level and average debt protection metrics. The tangible networth stood at Rs 42.46 crore as on 31st March, 2021 as compared to Rs 30.71 crore in the previous year. Acuité has considered unsecured loans of Rs.8.75 Cr as on March 31, 2021, as quasi-equity as the management has undertaken to maintain the amount in the business until the tenure of the bank facilities. The gearing (debt-equity) stood at 1.50 times in FY 2021 as compared to 2.49 times in the previous year. The coverage indicators stood moderate marked by Interest coverage ratio (ICR) which stood at 2.90 times for FY 2021 as compared to 2.75 times in FY 2020. Debt service coverage ratio (DSCR) stood at 1.23 times in FY 2021 as compared to 1.38 times in FY 2020. Net cash accruals to total debt (NCA/TD) stood at 0.16 times in FY 2021. The Debt-EBITDA stood at 4.10 times in FY 2021. Acuité believes that going forward the financial risk profile of the company will improve backed by steady accruals and no major debt funded capex plans.

### Weaknesses

#### Working capital intensive nature of operations

The working capital intensive nature of operations of the company is marked by high Gross Current Assets (GCA) of 182 days as on March 31, 2021 as against 95 days as on March 31, 2020. The high GCA days are on account of high inventory period of the company which stood at 177 days as on March 31, 2021 as compared to 68 days as on 31st March 2020. Management has a policy of keeping 90 days' worth of inventory on hand, against which they have 75 days' worth of orders. In average, management keeps 80-85 percent of inventory on hand to meet orders. Due to the second wave of COVID, inventory levels grew from Rs 23.44 Cr to Rs 35.92 Cr in FY2021. This was only a transitory scenario, since inventory in the 11M FY2022 has dropped to Rs 22.5 Cr. The debtor period stood at 19 days as on 31st March, 2021 as against 23 days in the previous year. Going forward, Acuité believes that the working

capital management of the company will remain at similar levels over the medium term due to the payment terms with its customers and suppliers.

### **Susceptible of operating margins to volatility in raw material prices**

Polyester, viscose are the company's main raw materials. Since these raw materials are derivatives of crude oil, their prices are highly volatile, and that they are constantly influenced by changes in crude oil prices as well as other factors such as government policies and agro-climatic conditions. Acuité believes that BSL's EBITDA margins would remain susceptible to raw material price volatility and high inventory holding levels over the medium term.

### **Rating Sensitivities**

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle

### **Material covenants**

None

### **Liquidity Position: Adequate**

The company's liquidity is adequate marked by net cash accruals stood at Rs 10.14 Cr as on March 31, 2021 as against long term debt repayment of Rs. 7.26 Cr over the same period. The cash and bank balances of the company stood at Rs. 0.05 Cr as on March 31, 2021 as compared to Rs. 0.17 Cr as on March 31, 2020. The current ratio stood at 1.89 times as on March 31, 2021. However, the fund based limit utilisation remained low at 41 per cent over twelve months ended February, 2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

### **Outlook: Stable**

Acuité believes that the outlook on BSL will remain 'Stable' over the medium term on account of the experience of the promoters and comfortable business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or further elongation in its working capital cycle.

### **Key Financials**

<b>Particulars</b>	<b>Unit</b>	<b>FY 21 (Actual)</b>	<b>FY 20 (Actual)</b>
Operating Income	Rs. Cr.	89.60	142.03
PAT	Rs. Cr.	3.00	3.78
PAT Margin	(%)	3.35	2.66
Total Debt/Tangible Net Worth	Times	1.50	2.49
PBDIT/Interest	Times	2.90	2.75

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

Not Applicable

### **Any other information**

Not Applicable

### **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**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History**

<b>Date</b>	<b>Name of Instruments/Facilities</b>	<b>Term</b>	<b>Amount (Rs. Cr)</b>	<b>Rating/Outlook</b>
07 Apr 2022	Term Loan	Long Term	36.55	ACUITE BBB-   Stable (Assigned)
	Cash Credit	Long Term	17.00	ACUITE BBB-   Stable (Assigned)
	Term Loan	Long Term	4.29	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	9.93	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	0.18	ACUITE BBB-   Stable (Assigned)
	Proposed Ad-hoc limits (Fund Based)	Long Term	7.69	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	9.93	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	9.60	ACUITE BBB-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Ad-hoc Limits (Fund Based)	Not Applicable	Not Applicable	Not Applicable	7.69	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	36.55	ACUITE BBB-   Stable   Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.29	ACUITE BBB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

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