

Press Release

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

March 31, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	123.08	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	85.24	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	208.32	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) on the Rs. 85.24 Cr bank facilities and has assigned the long-term rating of **'ACUITE BBB-'** (read as **ACUITE triple B minus**) on the Rs. 123.08 Cr bank facilities of Baba Spinners Limited (Erstwhile M R Weaving Mills Private Limited) (BSL). The outlook remains **'Stable'**.

Rationale for reaffirmation

Rating has been reaffirmed on account of improvement in scale of operations, stable profitability, decline in working capital intensity of operations and adequate liquidity position. Company has reported growth in operating revenue while maintaining stable operating margins and registering growth in net profits. GCA days have declined leading to comfortable bank limit utilization and adequate liquidity position. However, company is executing a large debt funded capex which would lead to moderation in financial risk profile in terms of increase in leverage and moderation of debt protection metrics along with moderate project execution risk. Going forward, the timely completion of capex without any cost overruns and the ability of the company to stabilize the new capacity and its contribution to revenue and effect on working capital management will remain key rating sensitivities.

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 and stable profitability

Company's reported decline in operating income in FY 2021 wherein revenues declined from Rs. 142.03 Cr in FY 2020 to Rs. 89.60 Cr in FY 2021 due to loss of sales in the first quarter of FY21 on account of the lockdown imposed by Government in the wake of Covid-19. In FY 2022 company witnessed 59% growth in revenues reporting operating income of Rs. 142.86 Cr. Company's EBITDA margin has increased from 11.89% in FY 2020 to 17.29% in FY 2021. Profitability was exceptional high in FY 2021 due to low cost raw material inventory company had in FY 2021 to work with. EBITDA margin declined but remained stable at 16.73% in FY 2022. PAT margin has increased year on year improving from 2.66% in FY 2020 to 3.35% in FY 2021 and further improving to 7.25% in FY 2022.

Above average financial risk profile

The financial risk profile of the company is marked by moderate net worth, moderate gearing level and average debt protection metrics. The tangible net worth stood at Rs. 52.82 Cr in FY 2022 as against Rs. 42.46 Cr in FY 2021. Total net worth also consists of Rs. 8.75 Cr of quasi equity which is subordinated unsecured loans. Total debt of Rs. 52.06 Cr in FY 2022 consists of Rs. 38.60 Cr of long term debt, Rs. 3.35 Cr of short term borrowings consisting of Rs. 2.80 Cr of working capital borrowings and Rs. 0.55 Cr of unsecured loans classified as short term and Rs. 10.11 Cr of CPLTD. Gearing (Debt to Equity) stood at 0.99 times in FY 2022 as against 1.50 times in FY 2021. Interest Coverage ratio improved and stood strong at 7.00 times in FY 2022 as against 2.90 times in FY 2021. DSCR improved to 1.98 times in FY 2022 from 1.23 times in FY 2021. NCA/TD has improved from 0.16 times in FY 2021 to 0.37 times in FY 2022. TOL/TNW has improved from 1.70 times in FY 2021 to 1.07 times in FY 2022 while Debt-EBITDA has improved from 4.10 times in FY 2021 to 2.18 times in FY 2022. Since the company is executing a debt funded capex hence financial risk profile is expected to moderate in the coming times however it will remain stable.

Weaknesses

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.
- Timely completion of capex without any cost overrun.

Material covenants

None.

Liquidity Position

Adequate

Company has adequate liquidity position. In FY 2022 company generated net cash accrual of Rs. 19.45 Cr against maturing debt obligation of Rs. 8.13 Cr. Company's cash and bank balance stood at Rs. 0.18 Cr in FY 2022 while current ratio stood at 1.50 times. As the average limit utilization stands at 25% in past 14 months through January 2023, company has adequate liquidity buffer in working capital limits to fund incremental working capital requirements and management's plan to increase sanctioned limits would further support liquidity once the new capacity become operational.

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 and financial risk profile. 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 delay in project execution resulting into adverse impact on operations or financial risk profile of the company.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	142.86	89.60
PAT	Rs. Cr.	10.36	3.00
PAT Margin	(%)	7.25	3.35
Total Debt/Tangible Net Worth	Times	0.99	1.50
PBDIT/Interest	Times	7.00	2.90

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

Not Applicable.

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, Acuité 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
05 May 2022	Proposed Ad-hoc limits (Fund Based)	Long Term	7.69	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	17.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	4.29	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	36.55	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	9.60	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	9.93	ACUITE BBB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.18	ACUITE BBB- Stable (Reaffirmed)
07 Apr 2022	Term Loan	Long Term	36.55	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)
	Cash Credit	Long Term	17.00	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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	9.68	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	7.77	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.42	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	27.48	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.89	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	123.08	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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