

Press Release

Moustache Industries Private Limited

December 05, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.50	ACUITE BBB Negative Reaffirmed	-
Bank Loan Ratings	5.30	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	22.80	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Erratum: In the original PR dated April 19,2022, key rating driver was incorrect which has now been revised in this version.

Acuite has reaffirmed the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs.22.80 crore of bank facilities of Moustache Industries Private Limited. The outlook is '**Negative**'.

Rationale for the rating

The rating of MIPL is driven by the high working capital requirements of the business and average financial risk profile during the period. However, these are offset by the extensive experience of the management in fashion and apparel industry along with healthy profitability margin. The rating also reflects the established brand presence along with strong distribution network of the company in the domestic market.

About the Company

Established in 1984 as Moustache International Private Limited based at Kolkata, 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 Acuite AA+/Stable/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 names of 'Moustache', 'M Brand', 'Court Shop' and 'Soul'.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of MIPL to arrive 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 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 company has also introduced two new brands 'Court Shop' and 'Soul' during FY2021 for different range of denims. The journey of brand 'Moustache' started in 1984 to introduce denim as daily wearing 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 (Kochin). The company also has more than 1500 dealers spread across the various places in 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 margin of the company has increased and stood healthy at 23.47 percent in FY2021 as compared to 10.00 per cent in FY2020. This significant increase in operating margin is on account of decrease in raw material and selling expenses during the period. Further, the operating margin of the company has also stood healthy at 21.74 per cent till 31st March 2022 (Prov.). Acuité believes that the operating margin of the company will be sustained at healthy levels over the near term backed by steady domestic and global demand in the fashion and apparel market. However, the net profitability margin of the company stood low at 0.88 per cent in FY2021 as compared to 0.92 per cent in the previous year.

Weaknesses

Average financial risk profile

The financial risk profile of the company is marked by low net worth, high gearing and moderate debt protection metrics. The net worth of the company stood low at Rs.8.51 crore in FY 2021 as compared to Rs. 3.61 crore in FY2020. This improvement in networth is mainly due to the infusion of fresh equity of Rs. 4.80 crore in the business during FY2021 and retention of profit. The gearing of the company stood high at 3.13 times as on March 31, 2021 when compared to 6.18 times as on March 31, 2020. This improvement in overall gearing is on account of increase in networth during the period coupled with decrease in short term debt as on March 31, 2021. Interest coverage ratio (ICR) of the company stood moderate at 1.18 times in FY2021 as against 1.26 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood moderate at 1.16 times in FY2021 as compared to 1.22 times in the previous year. The net cash accruals to total debt (NCA/TD) stood low at 0.01 times in FY2021 and in FY2020 respectively. Going forward, Acuité believes the financial risk profile of the company will improve on account of improving net cash accruals and no major debt funded capex plan over the near term.

Working capital intensive nature of operation

The working capital management of the company is marked by high GCA days of 1390 days

in FY2021 as compared to 940 days in FY2020. This high GCA day is mainly on account of high inventory days of 988 days in FY2021 as compared to 571 days in the previous year. This significant increase in inventory is on account of increase in finished goods inventory during the year end due to the pandemic situation. The high GCA days also emanates from high debtor days of 384 days in FY2021 as compared to 307 days in the previous year. However, the inventory days have improved to 521 days and collection period has improved to 240 days during the FY2022 (Prov.) Acuité believes that the ability of the company to manage its working capital operations efficiently will remain a key rating sensitivity.

Rating Sensitivities

- Scaling up of operations
- Sustenance of healthy operating profitability
- Working capital management

Material covenants

None

Liquidity Position

Stretched

The company has stretched liquidity marked by low net cash accruals of Rs.0.36 crore in FY2021 as compared to Rs.0.22 crore in FY2020. The cash accruals of the company is expected to remain in the range of around Rs. 1.59 crore to Rs. 1.84 crore during 2022-23 as against Rs.0.60 crore long term debt obligations in FY2022 and in FY2023 respectively. The bank limit of the company has been ~94 percent utilized during the last six months ended in March 2022. The working capital intensive nature of the company is marked by high Gross Current Asset (GCA) days of 1390 days in FY2021. Moreover, the current ratio of the company stood comfortable at 2.41 times in FY2021. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of increase in cash accruals against long debt repayments over the medium term.

Outlook: Negative

Acuité expects the credit profile of MIPL to be under pressure on account of continuous stretch in their working capital management led by high inventory and debtor levels. The rating may be downgraded in case the company is unable to dispose of their existing inventory leading to sharp increase 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 while maintain their profitability margin.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	10.92	12.28
PAT	Rs. Cr.	0.10	0.11
PAT Margin	(%)	0.88	0.92
Total Debt/Tangible Net Worth	Times	3.13	6.18
PBDIT/Interest	Times	1.18	1.26

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
20 Jan 2021	Standby Line of Credit	Short Term	1.80	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	3.60	ACUITE BBB Negative (Assigned)
	Term Loan	Long Term	4.90	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	9.00	ACUITE BBB Negative (Reaffirmed)
	Packing Credit	Short Term	3.50	ACUITE A3+ (Reaffirmed)
28 Dec 2020	Packing Credit	Short Term	3.50	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	9.00	ACUITE BBB Negative (Reaffirmed)
	Term Loan	Long Term	4.70	ACUITE BBB Negative (Reaffirmed)
	Standby Line of Credit	Short Term	1.80	ACUITE A3+ (Assigned)
04 Oct 2019	Proposed Bank Facility	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Cash Credit	Long Term	9.00	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	3.60	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE BBB Negative Reaffirmed
State Bank of India	Not Applicable	FBN/FBP/FBD/PSFC/FBE	Not Applicable	Not Applicable	Not Applicable	Simple	3.50	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.80	ACUITE A3+ Reaffirmed
State Bank of India	Not Applicable	Term Loan	Oct 31 2019 12:00AM	9.25	Sep 30 2027 12:00AM	Simple	4.90	ACUITE BBB Negative Reaffirmed

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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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