



Rating Rationale

03 Oct 2019

Shri Mookambiga Spinning Mills Pvt. Ltd.

Brickwork Ratings assigns rating for the Bank Loan Facilities of Rs. 31.33 Crores of Shri Mookambiga Spinning Mills Pvt. Ltd. ('SMSMPL' or 'the Company')

Particulars:

Facility**	Amount (Rs Cr)	Tenure	Rating*
Fund Based			
Cash Credit	23.00	Long Term	BWR BB-/Stable
Term Loan	8.33		
Total	31.33	Rupees Thirty One Crores and Thirty Three Lakhs Only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank loan facilities are provided in Annexure-I

Rating Action/Outlook

The rating reflects the operational track record, experience of the promoters, locational advantages in terms of availability of raw materials and diversified customer and supplier base. The rating draws comfort from the diversification of business into manufacturing of higher margin yielding Viscose Yarn in FY19 and marginal improvement in operational performance. However, the rating is constrained by the stagnant sales due to variability of cotton yarn prices and decline in the sale of fabrics, high gearing, stretched liquidity, working capital intensive operations, low pricing power due to commoditized nature of yarn. The rating is further constrained by the technological risks and associated capital costs for upgradation and margin-based competition from competitors in a highly fragmented industry.

The '**Stable**' outlook indicates a low likelihood of rating change over the medium term. Brickwork Ratings believes that Shri Mookambiga Spinning Mills Pvt. Ltd.'s ('SMSMPL' or 'the Company') business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations and higher than envisaged improvement in profitability result in an improved financial risk profile. The outlook may be revised to negative in case of inability to increase sales and profitability on a sustained basis, further deterioration in the capital structure due to debt-financed capital expenditure and stretch in cash conversion cycle, thus weakening the financial risk profile of the Company.

Key Rating Drivers

Credit Strengths:

- **Established operational track record and experienced promoters:** The promoters have over three decades of experience in cotton yarn manufacturing. The Company is primarily engaged in manufacturing, sale and trading of cotton yarn and also in manufacturing and sale of fabrics, cotton lint and cotton waste. It also has a captive windmill of 6.60 MW. The Company is equipped with automated machines with 32,016 spindles to manufacture cotton yarn of cotton count between 30s to 60s belonging to both Combed and Carded varieties. In FY19, more than 70% of the cotton yarn manufactured was of Combed variety. In FY19, the Company also started manufacturing of Viscose yarn which is a value added yarn and which has generally higher margin than cotton yarn. As part of its forward integration plan, the Company will enter into knitting business in the near future. Currently, Mr. E. O. Sathiesh Kumr, belonging to the second generation of original promoters, is managing the daily affairs of the Company as the Managing Director. The established presence in the market over a long period and promoters' understanding of the industry dynamics are beneficial for Company's business. Also, the promoters have the ability to contribute to the business through long term unsecured loans as and when needed.
- **Diversified customer and supplier base and locational advantage:** The Company has limited customer and supplier concentration risk as the sales and purchases are not concentrated enough with a few customers/suppliers so as to have an adverse affect on business due to business problems of any customers/suppliers. The Company's manufacturing unit is located in Tamil Nadu which is one of the main cotton producing states in India. The Company easily sources the raw material from traders and dealers in and around the state.
- **Financial performance:** There was marginal improvement in net sales in FY19 (P) to Rs. 66.77 Crs. from Rs. 66.33 Crs. in FY18 due to sharp decline in the sale of fabrics, as the Company ceased to manufacture fabrics due to unviability, despite increase in cotton yarn sale. EBITDA and PAT increased marginally during this period. Debt coverage metrics improved as ISCR increased from 1.48 times to 1.84 times and DSCR increased from 1.27 times to 1.34 times over the same period, and are adequate. Current Ratio, which was below unity since 31Mar2016, improved marginally to 1.05 times as on 31Mar2019 (P) due to a decline in trade payables. *[Note: P = Provisional.]*

Credit Challenges:

- **Leveraged capital structure:** Due to availment of new term loans for expansion of windmill capacity, total debt increased from Rs. 34.56 Crs. as on 31Mar2018 to Rs. 39.62 Crs. as on 31Mar2019 (P). Consequently, the gearing deteriorated from 3.74 times to 4.06 times over the same period. However, the financial leverage, though high, improved marginally from 5.62 times as on 31Mar2018 to 5.10 times as on 31Mar2019 (P) due to increase in unsecured long term loans from promoters/directors increasing from Rs. 0.30 Cr. to Rs. 1.56 Crs. during the same period. Given the nature of operations involving natural wear and tear and technological obsolescence, the Company will be required to replace and upgrade the machines and equipment in an ongoing basis for which debt would be needed. *[Note: P = Provisional]*

- **Susceptibility of profitability to volatility in cotton prices:** The profitability of cotton yarn business is negatively correlated to the variations in cotton price. Cotton prices are affected by agro-climatic conditions, Minimum Support Price (MSP) decided by the Central government and the demand from raw cotton export market. In the absence of any long term contract with the raw cotton sellers, the Company's operating cost is vulnerable to the volatility in raw cotton prices as raw material cost consists of approximately 2/3rd of it. Given the commoditized nature of cotton yarn and intense margin based competition of incumbents in the industry, the Company has limited pricing power to pass on the increase in such input costs to the customers. So, any upside volatility of raw cotton prices can adversely affect the profitability of the Company. Also, India's cotton yarn export between April-June this year was 33% lower compared to the same period last year which can depress the domestic price of the finished product, affecting the topline of the Company.
- **Working capital intensive operations:** Due to seasonal availability of raw cotton, the Company needs to purchase and store it during the harvest season. The raw cotton procurement season for the Company is October-July. This leads to lock up of capital for a long period in the raw material. Besides this, the Company provides an average credit period of up to 30-60 days to its customers, whereas it gets 30-50 days of credit from its suppliers.
- **Intense competition in industry:** The cotton yarn industry is highly fragmented, consisting of integrated and commodity players across both organized and unorganized sectors. The integrated players have both backward and forward integration across the value chain in varying proportions, while commodity players are engaged in spinning and/or weaving operations and supply of yarn and/or fabric in bulk. Due to the commoditized nature of the cotton yarn, the players have limited pricing power. So, any variation in input cost hits the margins due to limited flexibility to pass on that cost to the customers. In this scenario, the Company needs to rely on increase in scale of operations, augmentation of sales volume, diversification and moving up the value chain, long term contracts with buyers and suppliers and establishment of its brand in the market to win over its competition.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The Company does not have any subsidiaries.

Rating Sensitivities

Positive:

- Increase in scale of operations and profitability on a sustained basis
- Efficient working capital management and strengthening of liquidity position

Negative:

- Deterioration in liquidity
- Further Deterioration in gearing and debt coverage metrics

Liquidity Position: Stretched

As on 31Mar2019 (P), net cash accruals are low at Rs. 2.99 Crs. compared to projected interest and finance charges of Rs. 3.42 Crs. for FY20 and CPLTD of Rs. 1.52 Crs. as on 31Mar2019 (P). The Company plans to bridge the shortfall in servicing of debt obligations through reduction in interest expenses and in operating expenses through full utilization of windmill electricity generation capacity. Cash and cash equivalents are low at Rs. 0.22 Cr. as on 31Mar2019 (P). Working capital utilization is high at over 95% for the past six months. Current ratio is weak at 1.05 times as on 31Mar2019 (P). Stretching of the Cash Conversion Cycle from 79 days as on 31Mar2018 to 125 days as on 31Mar2019 (P) has added to strain on liquidity. Any shortfall in meeting debt obligations is expected to be funded through the promoters.

[Note: P = Provisional]

About the Company

Shri Mookambiga Spinning Mills Pvt. Ltd. was incorporated in 1982 by Mr. E. N. Othisamy in Coimbatore, Tamil Nadu. It is engaged in the manufacturing and trading of Cotton Yarn, Cotton Lint, Cotton Waste, Polyester, electricity and trading of Yarn and Fabric. The Company is equipped with automated machines with 32,016 spindles to manufacture cotton yarn of cotton count between 30s to 60s belonging to both Combed and Carded varieties. In FY19, the Company also started manufacturing of Viscose yarn. The Company owns a wind power plant of 6.60 MW for captive consumption in Tirunelveli. Capacity utilization was 93% and 95% in FY18 and FY19 respectively.

Mr. Ellappalayam Othisamy Sathiesh Kumar is the main promoter and the Managing Director.

Key Financial Indicators

Key Parameters	Units	FY17	FY18
Result Type		Audited	Audited
Net Revenue	Rs. Cr.	71.60	66.33
EBITDA	Rs. Cr.	6.31	5.39
Profit After Tax	Rs. Cr.	0.39	0.44
Tangible Net Worth	Rs. Cr.	8.80	9.25
Total Debt : Tangible Net Worth	Times	3.87	3.74
Current Ratio	Times	0.79	0.87

On a provisional basis, the Company has reported revenue of ~Rs. 66.77 Crs. for FY19 and ~Rs. 30.43 Crs. for 5MFY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - Acuite has migrated the long term rating of the bank loan facilities of the Company to 'Issuer Not Cooperating' category on 17Apr2019.

Rating History for the last three years

Facilities	Current Rating (October 2019)			Rating History		
	Tenure	Amount (Rs Cr)	Rating	2018	2017	2016
Fund Based						
Cash Credit	Long Term	23.00	BWR BB-/Stable	-	-	-
Term Loans		8.33				
Total		31.33	Rupees Thirty One Crores and Thirty Three Lakhs Only			

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

<ul style="list-style-type: none"> • General Criteria 	<ul style="list-style-type: none"> • Manufacturing Companies
<ul style="list-style-type: none"> • Approach to Financial Ratios 	<ul style="list-style-type: none"> • Trading Entities

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Shri Mookambiga Spinning Mills Pvt. Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	Karur Vysya Bank, Corporate Business Unit, Coimbatore	Cash Credit	23.00	-	23.00
2		Term Loans	3.98	-	3.98
3	Axis Bank, SME Centre, Coimbatore	Term Loans	4.35	-	4.35
TOTAL - Rupees Thirty One Crores and Thirty Three Lakhs Only					31.33

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