RATING RATIONALE **17 August 2020**

MADHAV TEX SPIN PRIVATE LIMITED

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 56.69 Crores of Madhav Tex Spin Private Limited (MTPL or the 'the company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund based	NA	53.69	Long Term	NA	BWR BB+ (Stable) Assigned
Non Fund Based	NA	3.00	Short Term	NA	BWR A4+ Assigned
Total	NA	56.69	INR Fifty Six Crores Sixty Nine Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I&II

Rating: Brickwork ratings has assigned the rating of BWR BB+/A4+ with stable outlook for bank loan rating of Madhav Tex Spin Private Limited.

RATING ACTION / OUTLOOK

The ratings take comfort from experience of the management in the cotton yarn industry, locational advantage and scale of operations. However, the rating is constrained by susceptibility of the profit margins to volatility in cotton and yarn prices, working capital intensive nature of operations, Average financial risk profile and competitive as well as the fragmented nature of the cotton industry. The rating is also constrained on account of expectation of adverse impact of COVID-19 pandemic on business operations.

Going forward, the ability of the company to increase its scale of operations along with improvement in profitability and efficient working capital management remain as key rating sensitivity.

Outlook: Stable

BWR believes that Madhav Tex Spin Private Limited' business risk profile will be maintained over medium term .The 'stable' outlook indicates a low likelihood of the rating change over medium term.

KEY RATING DRIVERS

BWR has relied upon the audited financial statements upto FY19, provisional financials of FY20, projected financials upto FY23 and publicly available information and clarifications provided by the company.

Strengths:

- **Extensive experience of promoters in the textile industry:** MTPL is managed by Mr. Dhiraj Vadaliya and Mr. Milan Shah. Promoters have an experience of more than two decades in the textile industry. The company benefits from healthy relationships with customers and suppliers.
- **Geographical advantage:** The manufacturing unit of the firm is located near the cotton producing belt of Saurashtra- Gujarat which gives easy access to availability of raw material.
- **Scale of operations:** Total operating income increased by 9.43% to 126.69 Crs in FY19 against 115.77 Crs in FY18. Operating profit margin grew by 18bps and Net profit margin by 96bps in FY19. Operations were affected in Q4FY20 due to Covid 19 pandemic. Though the company was able to achieve the total operating income of 128.68 Crs in FY20.

Weaknesses:

- **Susceptibility of profitability to volatility in cotton and yarn prices:** The profit margins are exposed to fluctuations in raw cotton prices, which depend on various factors such as seasonality, climatic conditions, global demand and supply situation and export policy. Further, on account of the demand disruption caused by COVID-19 pandemic, correction in yarn prices are expected.
- **Fragmented and competitive nature of industry**: There are a high number of organized as well as unorganized players in the market. Hence, competition may have an adverse effect on the operating profit margin of the company and limits its bargaining power.
- **Average financial risk profile:** The company has TNW of 28.74 Crs excluding USL

from promoters of 9.21 Crs in FY19. Overall gearing marked by TOL/TNW though high ,marginally improved from 2.55 times in FY18 to 2.14times in FY19. Further, it is expected to reduce to 1.68 times in FY20. Interest coverage ratio is adequate at 1.25times in FY19.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

The firm is rated as a stand-alone entity. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The rating outlook may be revised to 'positive' in case the revenue & profit show sustained improvement along with improvement in liquidity and capital structure.

Negative: The rating outlook may be revised to ' negative' if the revenue go down or profit margins show lower than expected figures. BWR may revise the ratings downwards due to deterioration of financial risk profile or stretched working capital cycle.

LIQUIDITY POSITION: Stretched

Cash Accruals are barely sufficient to meet debt repayment obligation of 6.87 crs per fiscal. Cash accruals of 7.04 crs against debt repayment of 6.87 Crs in FY19 and 8.39Crs against 6.87 Crs in FY20. However promoters are willing to bring in additional USL to meet any Shortfalls in repayment of debt servicing. The fund-based limit of 12 crs was utilised at an average of 80% over the last twelve months.

COMPANY'S PROFILE

Incorporated in Oct 2013, Madhav Tex Spin Private Limited is engaged in cotton yarn manufacturing. The company is promoted by Mr. Dhirajlal Vadaliya & Mr. Milan Shah. Manufacturing unit is situated at Rajkot, Gujarat.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	126.69	115.77
EBITDA	₹ Cr	10.93	9.78
PAT	₹ Cr	1.44	0.21
Tangible Net worth	₹ Cr	28.74	27.30
TOL/TNW	Times	2.14	2.55
Current Ratio	Times	1.09	1.17

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Instrument / Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	2019	2018	2017
Fund Based	Long Term	53.69	**BWR BB+ (Stable) Assigned**	**NA**	**NA**	**NA**
Non Fund Based	Short Term	3.00	**BWR A4+ Assigned**	**NA**	**NA**	**NA**
Total		**56.69**	**INR Fifty Six Crores and Sixty Nine Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria
General Criteria
Approach to Financial Ratios
Manufacturing Companies

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Madhav Tex Spin Private Limited

ANNEXURE I - Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Union Bank	Term Loan	19.14	0.00	19.14
		Cash Credit	8.00	0.00	8.00
		Bank Guarantee	0.00	3.00	3.00
2.	Punjab National Bank	Term Loan	22.56	0.00	22.56
		Cash Credit	4.00	0.00	4.00
TOTAL: INR Fifty Six Crores and Sixty Nine Lakhs Only					56.69

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