

June 19, 2017

## MYK Spinning Industries Private Limited

### Summary of rated instruments

Instruments*	Rated amount (Rs. crore)	Rating action
Long-term: Term Loans	5.38 (revised from 4.37)	[ICRA]BBB- (stable) / re-affirmed
Long-term: Fund based facilities (CC)	8.00 (revised from 9.00)	
Long-term: Fund based – Unallocated	12.53 (revised from 12.54)	
Short-term: Non-fund based facilities	4.50	[ICRA]A3 / re-affirmed

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA] BBB- (pronounced ICRA triple B minus)<sup>1</sup> on the Rs. 5.38 crore (revised from 4.37 crore) term loans, Rs. 8.00 crore (revised from 9.00 crore) fund-based facilities and Rs. 12.53 crore (revised from 12.54 crore) proposed fund based facilities of MYK Spinning Industries Private Limited (MYKSIL/"the Company"). ICRA has also reaffirmed the short-term rating at [ICRA] A3 (pronounced as ICRA A three) on the Rs. 4.50 crore non-fund based facilities. The outlook on the long-term rating is 'Stable'.

### Rationale

The reaffirmation of the ratings considers the relatively stable financial performance of the company over the past one year, marked by comfortable capitalisation and coverage indicators. The company's operating income grew by 6% in FY2017 driven by increase in yarn realizations (Rs.253/kg in FY2017; Rs.248/kg in FY2016) and volumes by 4 % ( 2,259 metric ton in FY2017; 2,182 metric ton in FY2016). In the absence of any significant debt-funded capital expenditure plans, company's key debt indicators are expected to remain at comfortable levels over the medium term. The ratings, however, continue to remain constrained by the company's small scale of operations, thin profitability, high working capital intensity and susceptibility of earnings to volatility in cotton and yarn prices given the moderate pricing flexibility stemming from a highly fragmented and price sensitive market.

MYKSIL's debt profile mainly comprises of term loan (26% of total debt as on March 31, 2017) and loan from promoters (31% of total debt as on March 31, 2017). The company's capital structure and coverage metrics improved with gearing and interest coverage improving from 1.5x and 2.4x in FY2016 to 1.4x and 2.6x in FY2017.

In ICRA's view, the company's ability to scale up its operations and margins through higher value addition will be critical for improvement in accruals and the credit risk profile. Volatility in cotton prices and yarn prices could, impact the financial profile and would remain a key sensitivity to the ratings. Going forward, the company has annual debt repayments of Rs.2.84 crore in FY2018 and Rs. 1.28 crore - Rs.1.31 crore over the next two years (FY2019-FY2020); the company's cash accruals are expected to be sufficient to service the debt comfortably.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

**Key rating drivers****Credit strengths**

- Presence in medium and finer count yarns supports realizations
- Comfortable capitalisation and coverage metrics
- Financial flexibility arising from being a part of the Parasakti group of companies

**Credit weaknesses**

- Relatively small scale of operations, restricting scale economy benefits
- Intense competition in a highly fragmented industry structure, amidst low product differentiation, restricts pricing flexibility
- Earnings remain susceptible to cotton & yarn price fluctuation as well as regulatory risks
- High working capital intensity, inherent to the spinning industry

**Description of key rating drivers:**

The company's revenues are skewed towards finer counts of 60's to 70's count (49% of the total revenues as at March 31, 2017) which has witnessed healthy uptick in demand from domestic garmenting industry. The company also produces coarser high quality 30's carded which is exported to China through merchant exporters.

Operating with a capacity of 29,680 spindles, MYKSIL is a small sized player in the highly fragmented domestic spinning industry. With small scale of operations, the company has limited bargaining power with its customers and for cotton purchases, thereby limiting the overall pricing flexibility.

MYKSIL's financial profile remained robust with equity infusion of Rs.1.8 crore during FY2017 (conversion of unsecured promoter loan of Rs.6.8 crores as at FY2017). Inherent to the spinning industry the company also has a high working capital intensity of 29.4% on account of high stocking of raw materials. The company has comfortable capitalisation and coverage indicators with limited repayment obligations on its existing loans.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textiles Industry– Spinning](#)

**About the company:**

Established in 1995, MYK Spinning Industries Private Limited (MYKSIL) is engaged in the manufacturing of cotton yarn and marketing in the textile markets of Gujarat and Maharashtra with an installed capacity of 29,680 spindles. MYKSIL manufactures cotton yarn in the count range of 30's to 80's. The promoter of the company is Mr. Muni Krishna (also the promoter of Parasakti Cement Industries Limited).

The promoter have business interests in two other companies—Turbovent Industries Private Limited and Parasakti Cement Industries Limited; engaged in manufacturing industrial fans and cement, respectively.

As per unaudited results for FY2017, MYKSIL's operating income and profit after tax (PAT) stood at Rs. 57.2 crore and Rs. 0.3 crore, respectively, compared to Rs. 54.1 crore and Rs. 0.4 crore over the same period last fiscal.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table: 1**

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past three years the past		
		Type	Amount rated (Rs. crore)	June 2017	March 2016	March 2015	March 2014
1	Term Loan	Long term	5.38	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BB+(stable)
2	Fund based facilities (CC)	Long term	8.00	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BB+(stable)
3	Fund based facilities – unallocated	Long term	12.53	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BBB-(stable)	[ICRA]BB+(stable)
4	Non-fund based facilities – LC	Short term	4.00	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+
5	Non-fund based facilities - BG	Short term	0.50	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4+

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Amount rated (Rs. crore)</b>	<b>Current rating and Outlook</b>
Term Loan	-	-	April 2021	5.38	[ICRA]BBB- (stable)
Cash Credit	-	-	-	8.00	[ICRA]BBB- (stable)
Fund based facilities-unallocated	-	-	-	12.53	[ICRA]BBB- (stable)
Non-fund based facilities – Letter of credit	-	-	-	4.00	[ICRA]A3
Non-Fund based facilities - Bank guarantee	-	-	-	0.50	[ICRA]A3

Source: MYKSIL

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#### About ICRA Limited:

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