

September 01, 2023

Maruti Nandan Spinning Mill: [ICRA]B+(Stable)/[ICRA]A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based limits – Cash Credit	10.0	[ICRA]B+ (Stable); assigned
Long term fund-based limits - Term Loans	18.1	[ICRA]B+ (Stable); assigned
Short term non-fund-based limits	1.90	[ICRA]A4; assigned
Total	30.0	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to Maruti Nandan Spinning Mill (MNSM or the firm) factors in the long experience of the partners in the textile industry and the location of the firm’s manufacturing plant in proximity to raw material sources in Ahmedabad, Gujarat, one of the top cotton producing states in India. The ratings also factor in the lower marketing risk for MNSM as the entire sales are made to another group entity, Maruti Denim, along with the logistical advantages that MNSM enjoys due to the proximity to the plants of other Group entities.

The ratings are, however, constrained by the firm’s weak financial profile, characterised by a leveraged capital structure, low net margins and high debt levels, resulting in high total debt to profit ratio of 5.1 times as on March 31, 2023 (as per provisional estimates), a stretched liquidity position and weak debt coverage indicators. Further, the ratings factor in the vulnerability of the firm’s profitability to adverse fluctuations in raw material prices (cotton). ICRA also notes the capital withdrawal risk associated with the partnership nature of the entity.

The Stable outlook on the [ICRA]B+ rating reflects ICRA’s opinion that MNSM’s financial risk profile will remain stable with modest debt coverage metrics amid stable repayment obligations, though supported by need-based infusion of funds by the partners. The firm is likely to continue to benefit from the experience of its partners in the textile industry and maintain its business position.

Key rating drivers and their description

Credit strengths

Extensive experience of partners in textile industry – The partners of MNSM, Mr. Anuj Mittal and Mr. Gaurav Mittal, have close to two decades of experience in the textile industry across the denim making value chain. Their understanding of the local market dynamics has helped them to establish long associations with their suppliers and buyers in the industry. ICRA expects MNSM to benefit from the strong industry experience of its promoters, resulting in sustained revenue growth over the medium term.

Manufacturing facility located in proximity to cotton growing belt and manufacturing facilities of group companies – MNSM’s manufacturing facility is located in Ahmedabad (Gujarat), in proximity to the cotton growing belt. Other manufacturing facilities of the promoter group that carry out yarn manufacturing, dyeing, weaving and processing are also situated nearby. MNSM’s group company, Maruti Denim, is involved in yarn dyeing and processing. Maruti Denim sources yarn from other group companies like MNSM and Mahadev Spinning Mills for dyeing as a part of the denim making process. Dyed

yarn is sold to other group facilities like Shri Balaji Industries and Balaji Polycot Pvt. Ltd. for weaving. Woven fabric is sold back to Maruti Denim, which further processes and sells the fabric to apparel manufacturers and converters across the country.

Credit challenges

Weak financial risk profile due to debt-funded project and modest scale of operations and profitability – With the entire capacity commissioned and healthy ramp-up of operations, MNSM has registered a stable turnover from FY2018. However, the operating profitability has seen a declining trend in the recent years. The total debt on MNSM’s books stood at Rs.33 crore as on March 31, 2023. The overall debt levels remain high due to the debt-funded nature of the project. Consequently, the gearing remained high at 5.2 times as on March 31, 2023. The ratio of Total Outside Liabilities /Tangible Net Worth also remained high at 7.7 times, while Total Debt/OPBDITA stood at 5.1 times. Gearing and debt coverage metrics are likely to improve with an increase in scale and on-going repayment of term loans. Interest coverage metrics are expected to continue to remain moderate, supported by low interest rates.

Vulnerability of profitability to any adverse fluctuation in key raw material prices – The margins of the company are largely affected by the raw material price fluctuation, which affects sales realisations. Any adverse movement in the price of key raw materials like cotton could have an adverse impact on the margins as the company may not be able to pass on the price hike to its other group entity (customer) owing to high competition and overcapacity in the industry. ICRA expects the promoter group’s integrated set-up to cushion the impact of adverse movements to an extent.

Risks associated with partnership constitution of the firm – ICRA notes that MNSM is a partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm’s net worth and liquidity position. In this context, it has been noted that the partners have ensured need-based fund infusion in the firm in the past, which provides comfort.

Liquidity position: Stretched

MNSM’s liquidity position is stretched, as reflected in the modest cash and bank balances of Rs. 1.0 crore as of March 2023. Utilisation of fund-based limits stood at more than 90% of the sanctioned limits for the six-month period ended in June 2023. ICRA notes that the firm has sizeable repayment obligations in the current and upcoming fiscals for its term borrowings. While the liquidity in the immediate future is expected to be supported by reasonable net cash accruals and available cash and bank balances, the firm’s ability to scale up operations while effectively managing working capital cycle will remain crucial for its liquidity profile, going forward. ICRA expects inadequate cash flow generation from operations and increasing repayment obligations to necessitate infusion of fresh capital to maintain adequate liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade MNSM’s ratings if the firm significantly scales up its operations and profitability, leading to an improvement in its credit metrics, and achieves a better liquidity position.

Negative factors – Pressure on MNSM’s ratings could arise if there is a decline in revenues and profitability, or a stretch in the working capital cycle, resulting in a further deterioration in its credit metrics and liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Indian textiles industry- Spinning
Parent/Group support	Not applicable

Consolidation/Standalone

The ratings are based on the standalone financial profile of the company

About the company

Maruti Nandan Spinning Mill was established in 2016 as a partnership firm, promoted and managed by Mr. Anuj Mittal, Mr. Gaurav Mittal and Ms. Urmila Mittal. MNSM is involved in cotton spinning with counts of 8s, 11s, 14s and 16s. The company's manufacturing unit is located in Ahmedabad (Gujarat) comprising four spinning units with 1,920 rotors, having an installed capacity of 6,657 TPA of cotton yarn.

Key financial indicators

	FY2022	FY2023*
Operating income	96	110
PAT	1.0	1.0
OPBDIT/OI	6.7%	5.9%
PAT/OI	1.1%	0.9%
Total outside liabilities/Tangible net worth (times)	4.4	7.7
Total debt/OPBDIT (times)	5.4	5.1
Interest coverage (times)	3.3	2.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *provisional estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 01, 2023	-	-	-
1 Cash Credit	Long term	10.0	9.1	[ICRA]B+(Stable)	-	-	-
2 Term Loans	Long term	18.1	13.5	[ICRA]B+(Stable)	-	-	-
3 Non Fund-based facilities	Short Term	1.9		[ICRA]A4	-	-	-

*outstanding as on March 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based limits – Cash Credit	Simple
Long term fund-based limits - Term Loans	Simple
Short term non-fund-based limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.0	[ICRA]B+(Stable)
NA	Term Loan	FY2016-FY2022	NA	FY2025-FY2027	18.1	[ICRA]B+(Stable)
NA	Non-fund-based limits	NA	NA	NA	1.90	[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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