

Shri Muniveer Spinning Mills

January 04, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term loan facilities	6.29	[ICRA]BB- (Stable); Assigned
Fund based – Working capital facilities	5.00	[ICRA]BB- (Stable); Assigned
Non Fund based facilities	1.06	[ICRA]A4; Assigned
Total	12.35	

Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus) to the Rs. 11.29-crore¹ fund-based bank facilities of Shri Muniveer Spinning Mills. ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 1.06-crore¹ non-fund based facilities of Shri Muniveer Spinning Mills (SMSM or the firm)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings positively factor in the experience of partners in the textile industry and the location advantage leveraged by the firm as it is located in Surat (Gujarat), the textile hub of Western India. Established relations with key suppliers and customers have resulted into efficient working capital cycle for SMSM. The financial profile of the firm is characterized by steady growth in revenue, moderate operating profitability, improving cash accruals position and positive fund flow position over the years.

The ratings, however, remain constrained by SMSM's modest scale of operations and the geographic concentration risk with the firm primarily catering to local customers from Surat, making it vulnerable to policy changes on a local level and limiting scaling up of operations. The ratings are also constrained by the highly fragmented and competitive nature of the industry due to the existence of a large number of players in the organised and unorganised segments, and susceptibility of margins to adverse movements in prices of key raw material— polyester chips, which are crude oil derivatives.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes SMSM will continue to benefit from the vast experience of its partners in the textile industry, fairly high capacity utilisation levels and Government support in the form of TUFs which improves the project viability. ICRA also takes note of the plan to install a 2.1MW windmill in April 2018 for captive consumption. While this is expected to be primarily debt funded, the wind power generation operations will reduce the power costs, provide accelerated depreciation benefits to reduce tax burden besides a new source of income to SMSM. The outlook may be revised to 'Positive' if the firm expands its scale of operations to record steady revenue growth and depicts stability in profitability levels over the medium term, along with better working capital management to strengthen the financial risk profile. The outlook may be revised to 'Negative' if there is considerable de-growth in revenue, strain on the working capital cycle or leveraging of capital structure through capital withdrawal by partners or increase in debt levels.

Key rating drivers

Credit strengths

Experience of the partners in the textile industry – Established in 2010, the partners of SMSM have gained experience in the textile industry, especially in the spinning sector. The firm has established relations with key suppliers and customers over the years.

Location advantage by virtue of presence in Surat – The firm leverages location advantage as it is based out of Surat, Gujarat which is a textile hub of Western India. Presence in the textile oriented city streamlines raw material procurement for the firm and also gives access to a wide clientele base.

Financial profile characterized by steady growth in revenues and moderate operating profitability – The firm has recorded a CAGR of ~9% in operating income for the period FY2014 to FY2017. It has also exhibited moderate profitability level (13%-14%) over the last three years thereby improving cash accruals position and also recording positive fund flow position over the years. The working capital intensity is moderate with timely realisation from customers and moderate inventory levels in business.

Credit weaknesses

Modest scale of operations; concentration risk with the firm catering to local customers from Surat – SMSM exhibits a modest scale of operations. The firm is exposed to moderate customer concentration risk with ~27% of sales being generated by top two customers in FY2017. Limited diversification limits the ability to scale up and derive the scale economies. Revenues polarized around few key clients expose the firm to moderately high customer concentration risk. However, well established relations of the firm with its major clients ensures timely realisation from them and provide some comfort against the concentration risk.

Exposure to adverse movement in yarn prices may impact profitability – Since a significant portion of the raw materials are crude oil derivatives, the company's profitability remains exposed to the movement in raw material prices. Price of polyester chips is directly linked to the prices of Monoethylene Glycol (MEG) and Pure Terephthalic Acid (PTA), which in turn are dependent on the crude oil prices.

Intensely competitive business environment on account of fragmented industry structure – The firm operates in an intensely competitive business environment given the fragmented industry structure. As a result, the firm faces constraints in pricing power which may further exert downward pressure on its margins.

Risks associated with constitution as a partnership firm – Given SMSM's constitution as a partnership firm, it is exposed to discrete risks including the limited ability to raise capital and possibility of withdrawal of capital by the partners.

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 Textile Industry - Spinning](#)

About the company:

Shri Muniveer Spinning Mills is a Surat based spinning mill engaged in production and marketing of polyester yarn. The firm also produces cotton and fancy yarn albeit on a smaller scale. The firm was established in 2010 with 13,000 spindles in its fleet in its manufacturing facility in Surat. The firm subsequently went for capacity expansion, thereby adding another 5,500 spindles in the fleet in year 2014. SMSM currently has capacity of producing ~9-10 MT of yarn every day. In FY2017, the company reported a net profit of Rs. 1.1 crore on an operating income of Rs. 39.5 crore, as compared to a net loss of Rs. 0.7 crore on an operating income of Rs. 36.7 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	36.7	39.5
PAT (Rs. crore)	-0.7	1.1
OPBDIT/ OI (%)	14.2%	13.0%
RoCE (%)	9%	16%
Total Debt/ TNW (times)	1.4	0.9
Total Debt/ OPBDIT (times)	2.4	1.9
Interest coverage (times)	2.1	2.2
NWC/ OI (%)	16%	17%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating January 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1 Term Loan	Long Term	6.29	6.29	[ICRA]BB-(Stable)	-	-	-
2 Cash Credit	Long Term	5.00	-	[ICRA]BB-(Stable)	-	-	-
3 Non Fund Based Facilities	Short Term	1.06	-	[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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2015	10.5%	March 2020	6.29	[ICRA]BB- (Stable)
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	1.06	[ICRA]A4

Source: Shri Muniveer Spinning Mills

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