Meenu Creation LLP

December 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	69.50	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	2.50	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING* (Double B ; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Bank Facilities	**72.00 (Rs. Seventy-Two Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Meenu Creation LLP (MCLLP) to monitor the ratings vide e-mail communications/letters dated October 04, 2021, October 20, 2021, November 18, 2021, November 19, 2021 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on MCLLP's bank facilities will now be denoted as CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings factors in non-cooperation by MCLLP and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on November 05, 2020, the following were the rating strengths and weaknesses:

Key Rating Weaknesses

Working capital intensive nature of operations coupled with partnership constitution of business

The operations of the company are working capital intensive in nature marked by high operating cycle of 93 days in FY20 (refre to period from Aoril 01 to March 31). High operating cycle is majorly a result of elongation in the inventory holding period of 83 days in FY20 (PY: 85 days) as well as the high collection period of 57 days in FY20 (PY: 68 days). Company provides a credit period of around 45-120 days to its clients due to the intense competition in the market and low bargaining power leading to high payment days. Total debtors of the company stood at Rs. 52.16 crores as on September 30, 2020 against Rs. 43.13 crores as on March 31, 2020 and Rs. 62.70 crores as on March 31, 2019. The company manufactures mainly on order basis and manufacturing time taken between receiving the order and dispatch varies from 25 to 90 days depending on the order size, product type etc. Company maintains inventory in advance as well as procures it as per the requirement of the client and as per market trend. MCLLP is also required to maintain an adequate inventory of a number of raw materials for smooth production process. A significant level of finished goods inventory has to be maintained for the smooth execution of orders. The peak season for the company is November to July and majority of manufacturing and shipments takes place during this period and inventory levels is also high during this period. Working capital is supported by credit period of 48 days in FY20 (PY: 68 days). The average utilization at maximum level stood moderate at 68.63% for past 12 months ending March 2020. MCLLP, being a partnership firm, is exposed to inherent risk of the capital being withdrawn at time of personal contingency and firm being dissolved upon the death/insolvency of the partners. Further, partnership firm has restricted access to external borrowing as credit worthiness of the partners would be the key factors affecting credit decision for the lenders.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Exposure to foreign exchange fluctuation risk & raw material risk
Company exports almost 100% of its produce to different countries including United Kingdom, Spain, France, Italy, United States of America and others on account of which MCLLP's profitability remains exposed to foreign currency fluctuations. However the company hedges about 60% of its foreign exchange exposure using forward contracts. Remaining un-hedged portion of the cash flows remains exposed to forex risk. Company receives payment majorly on EURO (60%- 65%) and USD (35%-40%) and payment to creditors and suppliers are made in INR. The company accounted for foreign exchange gain of Rs. 6.43 crores in FY19 (PY: 4.67 crores). Company procures its raw material domestically from different states, however majority of raw material is procured from Gujarat and Maharashtra. Majorly raw material of the company includes fabric bails, thread, laces, buttons etc. and procurement of fabrics depends upon customer's demand. Company does not have any fixed contracts with the suppliers and raw material is purchased at ongoing market price. This exposes it to the volatility of the prices of raw material in the local market where any significant change in price can severely impact the profitability of the company.

Competitive nature of the industry
Apparel manufacturing is characterized by low entry barriers and hence is highly fragmented industry with presence of large number of organized and unorganized manufacturers resulting in limited pricing power leading to thin operating margins. At the same time, there is heavy competition with the neighbouring countries like China, Vietnam, Bangladesh, Sri Lanka, etc. Manufacturers from countries like Bangladesh & Pakistan also has competitive advantage with lower labour cost and zero duty access to the European Union. Indian apparel exports will continue to be guided by development in USA and EU economies. Availability of skilled manpower and raw material like cotton, polyester and viscose puts India in a favourable position vis-à-vis other countries.

Key Rating Strengths
Experienced Promoters
MCLLP, set up in 1998 and operations started from 2001, manufactures and exports readymade garments, especially for women and kids, including skirts, dresses, trousers, shirts etc. Mr. Anil Peshawari is the Founder & Chairman of Meenu Creation LLP. It was earlier a proprietorship concern of Ms Meenakshi Peshwari, and was reconstituted as a limited liability partnership between Mr Anil Peshwari and Ms Meenakshi Peshwari in April 2016. Mr. Anil Peshawari, is a Chartered accountant, holds an industry experience while Mrs Meenakshi Peshwari is a post graduate and also holds an industry experience of more than 18 years. The promoters are actively involved in the day-to-day affairs of the company and are supported by a team of qualified professionals for various domains. This has helped MCLLP establish strong relationships with suppliers, securing timely and assured supply of products. The promoters have established relationships with customers, resulting in repeat orders and gradual scale up in operations.

Moderate financial risk profile
Total income from operations has increased from Rs 281.59 crore in FY17 to Rs 323.97 crore in FY19 primarily on account of additional new clients such as Ascens Retail Group Inc. and increased business with existing clients. The profitability margins of the company continue to remain moderate, PBILDT and PAT margin in FY19 stood at 9.28% and 4.83% respectively. Total debt of the company stood at Rs.72.68 crores as on March 31, 2019, which majorly comprises working capital borrowings of Rs. 52.58 crores and unsecured loans of Rs. 18.63 crores raised from related parties and friends for supporting working capital requirements of the company and term loan of Rs. 1.47 crores. The overall gearing of the company stood at 1.35x as on March 31, 2019 as against 0.78x as on March 31, 2018. During FY19, promoters of the company withdrawn Rs. 29.37 crores and infused Rs. 25.67 crores utilizing proceeds from properties sold by promoters. The promoters have planned a capacity expansion with purchase of new office/manufacturing property through a group company. MCLLP will make rental payments to this group company for its manufacturing operations at the new property. Purchase of the new office space and capex for machinery was sourced from withdrawals of around Rs. 18 crores from MCLLP in FY19 and FY20 which were utilized by the promoters for the expansion there. Further as per FY20 (provisional) financials, total income from operations stood at ~Rs 340 crore in FY20 growing at a CAGR of ~6% over a period of 3 years from Rs. 281.59 crores in FY17. PBILDT margin and PAT margin of the company also stood moderate at 9.26% and 4.46% in FY20.The overall gearing of the company stood at 1.25x as on March 31, 2020. Total debt of the company stood at Rs.58.89 crores as on March 31, 2020, which majorly comprises working capital borrowings of Rs. 38.71 crores and unsecured loans of Rs. 19.23 crores and term loan of Rs. 0.95 crores. Company has achieved total operating income of Rs. 97.68 crores for H1FY21 (April 01, 2020 to September 30, 2020) as against TOI of Rs. 159.97 crores in H1FY20 (April 01, 2019 to September 30, 2019) due to the outbreak of Covid-19 which has impacted the financial profile of the company. Company exports 100% of its exports to different countries including United Kingdom, Spain, France, Italy etc. and due to the lockdown imposed in different countries, demand from customers declined in initially, however it has improved month on month. As on October 29, 2020, company has order book of Rs. 66.30 crores.

Established clientele spread across the globe
The company has an operational track record of about 20 years and has positioned itself as an established player is women's skirts, dresses, trousers, shirts etc with its clients. MCLLP's healthy relationships, spanning over many years, with key customers such as Stradivarius Espana SA, Diramode, Sas Kiabi, Camaieu International has resulted in repeat business
The customer base is also diversified across United Kingdom, Spain, France, Italy, Portugal, US, etc. Currently company have client portfolio of around 20-22 clients and company majorly depends on repeat business from existing clients. Customer concentration is high with major portion of the revenue comes from the top three clients contributing to ~55% of the total sales in FY19 (PY: ~56%). Majority of the customers are engaged in retail sector, clients such as Diramode and Staradivarius are well established brands in Europe & US and any change in procurement policy of these customers may adversely impact the business of the company. The risk, however, is mitigated to some extent as MCLLP obtains regular orders from them.

Liquidity: Adequate
The liquidity profile of the company is adequate with current ratio of 1.39x (PY: 1.51x) and Cash and bank balances of around ~Rs. 0.72 crores as on March 31, 2020.. The operations of the company are working capital intensive in nature marked by high operating cycle of 93 days in FY20 (84 days in FY19). High operating cycle is majorly a result of elongation in the inventory holding period of 83 days in FY20 (PY: 85 days) as well as the high collection period of 57 days in FY20 (PY: 68 days). Working capital is supported by credit period of 48 days in FY20 (PY: 68 days). The average utilization at maximum level stood moderate at 68.63% for past 12 months ending March 2020. WC borrowings are primarily in the form of pre-shipment credit & bill discounting. Company has scheduled repayment of around Rs. 0.44 crores in FY21. Between the period of April 01, 2020 to July 31, 2020, company has realized debtors of around Rs. 57.23 crores and proceed from the same has been used to pay the creditors. As on September, 2020, total debtors, creditors and inventory of the company stood at Rs. 52.16 crores, Rs. 16.41 crores, and Rs.44.87 crores respectively.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Criteria for Short-term Instruments
Liquidity Analysis of Non-Financial Entities

About the Company
MCLLP, set up in 2001, manufactures and exports readymade garments, especially for women and kids, including skirts, dresses, trousers, shirts etc. Mr. Anil Peshawari is the Founder & Chairman of Meenu Creation LLP. It was earlier a proprietorship concern of Ms Meenakshi Peshwari, and was reconstituted as a limited liability partnership between Mr Anil Peshwari and Ms Meenakshi Peshwari in April 2016. Company have four manufacturing units and one warehouse which are situated in Noida, India. The manufacturing process starts with procurement of fabric, dyeing and printing, cutting, stitching, embroidery, finishing, washing, pressing, packing and dispatch. Company outsources the process of dyeing and printing. Company have a total capacity of producing 10 million garments per annum. Company exports almost 100% of its produce to different countries including United Kingdom, Spain, France, Italy, United States of America and others. Company has started a new segment of home furnishing under which it manufactures Bed Sheets, Pillows, Table covers, Napkin, Curtains, Shower Curtain, Cushion etc. However this segment is in the nascent stage and sale from the segment is negligible.

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	31-03-2021 (A)	H1FY22(Prov)
Total operating income	323.97	340.05	NA	NA
PBILDT	30.06	33.59	NA	NA
PAT	15.65	16.83	NA	NA
Overall gearing (times)	1.35	1.25	NA	NA
Interest coverage (times)	6.36	5.82	NA	NA

A: Audited; Prov: Provisional; NA: Not Available
Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Not Applicable*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	69.50	CARE BB; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	2.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	0.50	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	69.50	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable (05-Nov-20)	-	-
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	2.00	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable / CARE A4 (05-Nov-20)	-	-
3	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	0.50	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB; Stable / CARE A4 (05-Nov-20)	-	-

** Long Term / Short Term*

Annexure 3: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3	Non-fund-based - LT/ ST-Derivative Limits	Simple

Annexure 4: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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