Maharaja Shree Umaid Mills Limited

December 03, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	22.39 (Enhanced from 14.51)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Revised from CARE BB; Stable (Double B; Outlook: Stable)
Long Term / Short Term Bank Facilities	73.00	CARE BB+; Positive / CARE A4+ (Double B Plus ; Outlook: Positive/ A Four Plus)	Revised from CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four)
Short Term Bank Facilities	3.00	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
Total Bank Facilities	**98.39 (Rs. Ninety-Eight Crore and Thirty-Nine Lakhs Only)**		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to bank facilities of Maharaja Shree Umaid Mills Limited (MSUML) is on account of healthy growth in its scale of operations in H1FY22 (FY refers to the period April 1 to March 31) post covid-19 induced disruptions in FY21, improvement in operating profitability in FY21 as well as H1FY22 resulting in net profit after reporting losses over the past couple of years along with improvement in debt coverage indicators in FY21.

The ratings, however, continue to remain constrained by MSUML's moderate scale of operations, working capital intensive operations as well as inherent cyclicality associated with the textile industry with impact of government policies and climatic conditions which results in volatility in raw material prices.

The ratings continue to derive strength from vast experience of the promoter group in the textile industry along with their financial resourcefulness with continued support by way of fund infusion for MSUML's operational as well as debt servicing requirements. The ratings also continue to take cognizance of MSUML's established track record with strong presence in the poplin fabric segment, diversified client base, moderate capital structure and adequate liquidity.

Rating Sensitivities

Positive Factors

- Significant increase in scale of operations above Rs.500 crore and improvement in PBILDT margins.
- Improvement in debt coverage indicators with total debt to PBILDT of less than 5 times and interest coverage of more than 2 times.

Negative Factors

- Significant decline in scale of operations with TOI falling below Rs.300 crore with significant increase in net loss.
- Deterioration in capital structure with overall gearing exceeding 1.5 times.

Outlook: Positive

The revision in the outlook from 'Stable' to 'Positive' is on account of envisaged growth in scale of operations in FY22 with recovery in demand post covid-19 pandemic induced disruptions along with maintenance of healthy profitability and improvement in debt coverage indicators.

The outlook may be revised to 'Stable' in case of lower than envisaged growth in scale of operations or profitability or any major increase in debt level resulting in deterioration in leverage or liquidity position of the company.

Detailed description of the key rating drivers

Key Rating weakness

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature due to inventory holding requirement as well as credit period required to be offered to the customers. During FY21, MSUML's operating cycle elongated to 128 days from 92 days in FY20 on the back of increase in inventory holding period coupled with lower base effect as the company's operations in FY21 were significantly impacted due to Covid-19 disruptions more particularly in H1FY21.

The key raw material for the company is cotton. MSUML procures majority of its requirement of cotton from the domestic market mainly Rajasthan and Gujarat. The company also gets support from its group entities for sourcing of cotton. Cotton being a seasonal product, it needs to be procured during the season for production in the subsequent months. Thus, inventory level in the company generally remains high at the year end. Further, the company is required to extend credit period to its

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

customers which is up to 30 days for cotton yarn and up to 60 days for fabric. Collection period increased from 47 days in FY20 to 61 days in FY21 mainly due to averaging effect, otherwise in absolute terms, its total receivables have reduced from Rs.49.97 crore as on March 31, 2020 to Rs.44.49 crore as on March 31, 2021.

Inherent cyclicality associated with the textile industry with impact of government policies and climatic conditions which results in volatility in raw material prices
Cotton is the key raw material which constituted majority of total raw material cost for MSUML. In India, which has one of the largest cotton cultivated area in the world; several factors such as variability in monsoon and returns from competitive crops play a significant role in influencing the cotton planting decision of farmers. Technological improvements such as better quality of cotton seeds have played a critical role in enhancing cotton production in India and improve yield per hectare over the few years. The minimum support purchase price (MSP) for cotton has been increased in CS21 (CS: Cotton season) which in turn has encouraged farmers to plant more cotton. Prices of cotton have historically been very volatile since it is a globally traded commodity and prices are determined by global demand-supply situation. As such, the profitability of textile players largely depends on volatility in cotton prices and ability of the company to timely pass on the rise in prices to its customer.

Key Rating Strengths
Healthy growth in scale of operations in H1FY22 along with improvement in profitability in FY21 as well as H1FY22
During FY21, total operating income (TOI) of the company on consolidated basis moderated by around 30% y-o-y to Rs.282.45 crore largely on account of impact on demand due to the outbreak of COVID-19 pandemic and lockdown announced by the government in wake of the same. Revenue from sale of wind power also moderated to Rs.7.29 crore in FY21 from Rs.9.88 crore in FY20. However, operating profit (PBILDT) margin improved significantly by 672 bps y-o-y to 16.57% on account of lower raw material as well as power and fuel cost. Consequently, the company reported net profit of Rs.1.50 crore in FY21 after incurring losses in previous financial years.
With improvement in demand in the current year, MSUML reported healthy growth in its TOI to Rs.221 crore in H1FY22. PBILDT margin also further improved to 21.01% in H1FY22 on the back of increase in sales realization of yarn as well as fabric resulting in higher spread. With this, MSUML reported net profit of Rs.26 crore in H1FY22.

Moderate capital structure as well as debt coverage indicators
MSUML's capital structure stood moderate with overall gearing of 0.43 times as on March 31, 2021 as against 0.46 times as on March 31, 2020. As per the conditions of latest sanction from one of the lenders, Placid Limited (Holding company of MSUML) has given undertaking that unsecured loans of Rs.100 crore would be maintained till the currency of bank loan and hence the same has been treated as quasi equity.
With improvement in profitability and largely stable debt levels, debt coverage indicators improved in FY21 with PBILDT interest coverage of 1.58 times (1.22 times in FY20) and total debt/ GCA of 16.01 times (32.95 times in FY20).

Experienced promoter group in textile industry with financial resourcefulness
Mr L N Bangur, Chairman & Managing Director, is associated with the company since 1988 and has industry experience of more than two decades. Mr Yogesh Bangur, Deputy Managing Director, is also associated with the company for more than a decade. The promoter group is professionally qualified and has a long-standing track record in the textile industry.
Also, the promoter group is financially resourceful and has regularly infused funds for operational and debt servicing requirement. The inter-corporate deposits from the promoter group stood at Rs.256.74 crore as on March 31, 2021 (Rs.273.75 crore as on March 31, 2020) including unsecured loan of Rs.100 crore considered as quasi equity.

Established track record of operations with strong presence in poplin fabric segment and diversified customer base
MSUML is one of the oldest composite textile mills in northern India having more than seven decades of track record with an established presence in domestic market. The company manufactures carded, compact, combed hosiery and weaving yarns, bleached sewing thread and knitted cotton yarns. Further, the company utilises its own manufactured yarn as well as sources from outside to manufacture grey and finished fabrics; though one of the finished fabrics i.e. dyed poplin has remained the key product for the company.
MSUML has a diversified client base with top 10 customers contributing around 25% (35% in FY20) of its TOI during FY21. MSUML's client base mainly includes its distributors who have long association with the company.

Good growth prospects for the textile industry
India has the world's second largest spinning capacity, commanding a major share of the global yarn market. However, the textile industry in India is highly fragmented and dominated by a large number of medium and small-scale unorganized players, leading to high competition in the industry. The prices of raw materials and finished goods are also determined by global demand-supply scenario. Hence, any shift in macroeconomic environment globally impacts the domestic textile industry. Indian cotton spinning industry, which was already facing multiple headwinds such as low demand, unfavorable duty structure and fluctuation in cotton prices and disruption in demand supply chain due to COVID pandemic. However, revival has been

witnessed post H1FY21 which has also resulted in improvement in cotton prices and overall spread. Sales realization also improved significantly mainly from Q4FY21 onwards with improved demand from both global and domestic market. Prices are expected to sustain in the near to medium term with sustained demand and gradual increase in the prices of raw cotton.

Liquidity: Adequate

MSUML had adequate liquidity with average utilisation of fund based working capital limit remaining moderate at 59% for 12 months ended October 2021. Moreover, the company is maintaining DSRA of over Rs.1 crore (equivalent to 3 months interest and principal) for part of the facilities as stipulated by one of the lenders which provides additional comfort.

Also, the company reported healthy cash flow from operations of Rs.36.46 crore in FY21. Cash accruals over the next three years are expected to comfortably cover the scheduled debt repayment obligation of around Rs.3-5 crore.

Analytical Approach: Consolidated.

Consolidated financials of the company include financials of MSUML and its wholly owned subsidiary, MSUM Texfab Limited which has been formed with an objective to operate in similar business of textiles. Further, the company is a part of LN Bangur group and has been receiving continuous financial support from its group entities.

Applicable Criteria

Criteria for Short Term Instruments
Rating Methodology for Cotton Textile Manufacturing
Rating Methodology: Consolidation
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing Companies
Financial Ratios – Non-Financial Sector
Wind Power Projects

About the Company

MSUML was incorporated in 1939 as a private limited company by Late Mr Mugneeram Bangur and was subsequently converted into public limited company in 1952. MSUML is the flagship company of L N Bangur (LNB) group and is engaged in manufacturing of cotton yarn and fabrics at its manufacturing facility located at Pali, Rajasthan. As on March 31, 2021, MSUML has installed capacity of 69,024 spindles and 1,440 rotors (17,397 metric tonnes per year [MTPY]) for yarn division and 188 looms (3,65,22,000 meters per year [MPY]) for fabric division. The company has also installed windmills in Rajasthan with total installed capacity of 17.45 MW as on March 31, 2021 out of which 2.10 MW is being utilized for captive consumption and the company has signed power purchase agreement with Rajasthan based power utilities for remaining 15.35 MW. Furthermore, the company has solar plant of 5.18 MW as on March 31, 2021 at Pali, Rajasthan which is being utilized for captive consumption.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	H1FY22(P)
Total operating income	399.07	282.45	221.44
PBILDT	39.31	46.81	46.53
PAT	-7.65	1.50	25.53
Overall gearing (times)	0.46	0.43	0.35
Interest coverage (times)	1.22	1.58	3.24

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April 2026	19.79	CARE BB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A4+
Fund-based - LT/ ST-Cash Credit	-	-	-	73.00	CARE BB+; Positive / CARE A4+
Non-fund-based - LT-Forward contract/ derivative limit	-	-	-	2.60	CARE BB+; Positive
Non-fund-based - ST-Forward Contract	-	-	-	1.00	CARE A4+

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-Term Loan	LT	19.79	CARE BB+; Positive	-	1)CARE BB; Stable (02-Nov-20) 2)CARE BB; Stable (24-Sep-20)	1)CARE BB; Stable (30-Sep-19)	1)CARE BB; Positive (04-Oct-18)
2	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (24-Sep-20)	1)CARE A4 (30-Sep-19)	1)CARE A4 (04-Oct-18)
3	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4+	-	1)CARE A4 (02-Nov-20) 2)CARE A4 (24-Sep-20)	1)CARE A4 (30-Sep-19)	1)CARE A4 (04-Oct-18)
4	Fund-based - LT/ ST-Cash Credit	LT/ST*	73.00	CARE BB+; Positive / CARE A4+	-	1)CARE BB; Stable / CARE A4 (02-Nov-20) 2)CARE BB; Stable / CARE A4 (24-Sep-20)	1)CARE BB; Stable / CARE A4 (30-Sep-19)	1)CARE BB; Positive / CARE A4 (04-Oct-18)
5	Non-fund-based - LT-Forward contract/ derivative limit	LT	2.60	CARE BB+; Positive	-	1)CARE BB; Stable (02-Nov-20)	-	-
6	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A4+	-	1)CARE A4 (02-Nov-20)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Financial covenant
• Maintain Current Ratio of more than 1.33 times as estimated/projected
• Maintain Debt to Equity ratio (TOL/TNW) of maximum 3:1 as estimated/projected
• Total external debt / EBITDA: Not to exceed 4 times (ICD to be excluded)
• Debt service coverage ratio not to fall below: 1 times for FY20 and 1.25 times from FY21 onwards where interest on ICD will be excluded for DSCR calculation
• The borrower shall maintain a minimum fixed assets coverage ratio of 1.33 times during the entire tenure of the facility cover

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

Sr. No.	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund based -LT- Forward Contract	Simple
5	Non-fund based -ST- Forward Contract	Simple

Annexure 5: 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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