February 10, 2009

CARE ASSIGNS 'BBB-' & 'PR3' RATING TO BANK LOAN FACILITIES OF MAHARAJA SHREE UMAID MILLS LTD.

CARE assigned '**CARE BBB-' (Triple B minus)** rating to the long-term bank loans / facilities and '**PR 3' (PR three)** rating to the short-term bank loans / facilities of Maharaja Shree Umaid Mills Ltd. (MSUML) for an aggregate amount of Rs. 143.51 crore, including term loan of Rs. 80.24 crore (including proposed term loan of Rs. 12.80 crore), fund-based working capital limit of Rs. 53.09 crore (including proposed enhancement of Rs. 27.69 crore) and non-fund based sanctioned limits of Rs. 10.18 crore.

The ratings take into account MSUML's long and established track record in the textile industry as a part of L N Bangur Group and its modest financial profile indicated by moderate gearing levels and stable liquidity position. The ratings are constrained by volatile nature of the industry with global linkages and company's declined profitability in FY08 due to increase in input cost along with higher interest and depreciation owing to expansion cum modernisation project which was largely debt funded. The company's relatively small size of operations further constrains the ratings. Company's ability to improve profitability and any major deviations in financial profile are key rating sensitivities.

Incorporated in 1939, the company started its operations of manufacturing cotton yarn and fabrics, later on adding to its capacity in cotton yarn and manufacturing synthetic yarn. The 9001:2000 accredited MSUML is part of L N Bangur group. Its manufacturing facilities are located in Pali district of Rajasthan.

MSUML is engaged in manufacturing and selling of cotton and synthetic yarn finding application in knit wears, terry towels, denims, medical fabrics, furnishing and industrial fabrics, and cotton fabrics i.e. poplin for making petti-coat for sarees where company is the market leader. The company has an installed capacity of 23,000 MT/annum of cotton yarn and more than 50000 mtrs of fabric per day with 1,09,344 spindles, 1,896 rotors and 460 looms. MSUML has an established marketing network to procure orders based on end-user segment.

MSUML's total income has grown at a CAGR 14.7% over the past three years. Total income grew by 17% to Rs.256 crore in FY08 as compared to FY07 due to increase in sales of both the products in domestic as well as export market, partially due to enhanced capacities. The PBILDT margin declined from 11.21% in FY07 to 7.91% in FY08 due to increase in raw materials and power and fuel costs. Decline in PBILDT margin along with increase in interest and depreciation, owing to recently completed expansion project, resulted in decline in PAT margin to 0.15% in FY08 from 3.68% in FY07. The operating profit was lower by Rs. 3.52 cr. due to conservative accounting policy regarding accounting of government subsidy, duty drawback, DEPB and rebate etc. under govt schemes including TUFS on receipt basis instead of accrual basis.

Though, long-term debt equity ratio decreased marginally from 0.90 as on March 31, 2007 to 0.84 as on March 31, 2008, overall gearing increased to 1.62 times as on March 31, 2008 from 1.48 times as on March 31, 2008, due to increase in short-term borrowings and bank borrowings towards cotton procurement.

Current ratio was moderately comfortable at 1.25 times as on Mar.31, 2008. However, liquidity position of company remained comfortable with moderate level of working capital utilization during past twelve months.

Overall growth of the company is expected to be driven by the overall growth of textile sector, which has registered a slowdown in current year due to global economic slow down. Moreover, maintaining margins would be critically dependent on MSUML's ability to improve profitability along with increasing its market share in a highly competitive industry marked by low/medium entry barriers.

The impact of various initiatives taken by MSUML through optimizing power cost and expanding business while leveraging its existing marketing strength, shall hold key to the improvement in operational and financial parameters on a sustainable basis and CARE would closely monitor it.

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