

## MG Tex Fab Private Limited

February 20, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	4.57	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Short term Bank Facilities	0.16	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Total Facilities	4.73 (Rupees Four crore and Seventy Three lakh only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from MG Tex Fab Private Limited (MTFPL) to monitor the ratings vide e-mail communications/letters dated August 29, 2018, October 25, 2018, December 6, 2018, December 21, 2018, January 1, 2019, January 16, 2019 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 publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on MTFPL'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 take into account its financial risk profile marked by its modest scale of operations, moderate capital structure, moderate debt coverage indicators and moderate liquidity position in FY18 (refers to the period April 1 to March 31). The ratings further remained constrained by susceptibility of profit margins to volatility in prices of raw material. The ratings, however, take into account experienced promoters, strategic location with easy access to raw material and labour. The ratings also factor improvement in profitability margins in FY18. MTFPL's ability to increase its scale of operations and profitability with improvement in its capital structure while efficiently managing its operating cycle amidst the high competition in the segment are the key rating sensitivities.

### Detailed description of the key rating drivers

*At the time of last rating on December 6, 2017 the following were the rating strengths and weaknesses(updated for the Information available from Registrar of Companies)*

#### Key Rating Weaknesses

##### Moderate scale of operations

Total Operating Income (TOI) of the company deteriorated by 25.83 percent as compared to previous year and remained at Rs.17.34 crore during FY18 as against Rs.23.38 crore during FY17.

##### Moderate capital structure and debt coverage indicators

As on March 31, 2018, overall gearing ratio deteriorated marginally and stood at 1.41x as against 1.31x as on March 31, 2017 on account of increase in total debt. Further, the debt coverage indicators of MTFPL have improved marked by Interest coverage ratio improved to 4.10x during FY18 as against 3.34x during FY17 on account of increase in operating profit. Also, total debt to GCA remained stable at 3.86x as on March 31, 2018 which is similar as previous year.

##### Moderate liquidity position

As on March 31, 2018, current ratio of MTFPL has improved and stood at 1.29x as against 0.96x as on March 31, 2017 on account of increase in other current assets coupled with decrease in creditors as on balance sheet date. However, during

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

\*Issuer did not cooperate; Based on best available information

FY18, the working capital cycle of MTFPL has elongated to 63 days from 41 days during FY17 mainly on account of increase in collection period and inventory period.

#### **Presence in highly fragmented industry and susceptibility of operating margins to volatility in price of raw material**

MTFPL is engaged into weaving process which is highly fragmented in nature with presence of large organized players as well as large number of small unorganized players in the industry which lead to high level of competition from both the organized and largely unorganized sector. Furthermore, the key raw materials required for manufacturing of grey fabrics are cotton and polyester yarn, prices of which are volatile in nature and any adverse fluctuation in the prices of raw material may impact the operating margin of MTFPL.

#### **Key Rating Strengths**

##### **Experienced promoters**

The company was promoted by MrSubhashPatodia and MrShreshthPatodiaboth having an experience of more than two and half decades in the textile industry.

##### **Strategic location with easy access to raw material and labor**

MTFPL's manufacturing facility is located at Surat which is one of the largest textile hubs of India. The key raw materials are easily available from the local market; thereby the company enjoys proximity to raw material resulting in lower transportation cost and relatively easy availability.

##### **Improvement in profit margins**

During FY18 the Profit margins have improved marked by PBILDT margin increased by 589 bps and stood at 14.26% during FY18 as against 8.37% in FY17 on account of decrease in procurement cost of raw materials during FY18. Consequently PAT margin has also increased by 321 bps and stood at 4.50% during FY18 as against 1.29% in FY17 on account of increase in operating profit.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

#### **About the company**

Incorporated in 2007, MG Tex Fab Private Limited (MTFPL) is engaged in the manufacturing of grey fabrics (viz French crepe, velvet, raw silk and metty pc) from cotton and polyester yarn. MTFPL operates from its sole manufacturing facilities located at Surat (Gujarat) with total 92 waterjet looms and operates with an installed capacity of 120 lakh meters per annum as on March 31, 2017. Although, MTFPL was incorporated in 2007, the production commenced from October 2011.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	23.38	17.34
PBILDT	1.96	2.47
PAT	0.30	0.78
Overall gearing (times)	1.31	1.41
Interest coverage (times)	3.34	4.10

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	December, 2018	0.59	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information
Non-fund-based - ST-BG/LC	-	-	-	0.16	CARE A4; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	May, 2021	0.98	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	0.59	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE BB-; Stable (06-Dec-17)	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE BB-; Stable (06-Dec-17)	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)
3.	Non-fund-based - ST-BG/LC	ST	0.16	CARE A4; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE A4 (06-Dec-17)	1)CARE A4 (15-Mar-17)	1)CARE A4 (21-Mar-16)
4.	Fund-based - LT-Term Loan	LT	0.98	CARE BB-; Stable; ISSUER NOT COOPERATING Issuer not cooperating; Based on best available information	-	1)CARE BB-; Stable (06-Dec-17)	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)

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