MG Tex Fab Private Limited

December 06, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	4.57	CARE BB-;Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	0.16	CARE A4 (A Four)	Reaffirmed
Total Facilities	**4.73 (Rupees Four crore and Seventy Three Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MG Tex Fab Private Limited (MTFPL) continue to remain constrained on account of financial risk profile of MTFPL marked by its modest scale of operations coupled with low profit margins, moderate capital structure, moderate debt coverage indictors and moderate liquidity position in FY17 (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 debt coverage indicators in FY17.

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

Key Rating Weaknesses

Moderate scale of operations and low profit margins

During FY17, the TOI of MTFPL remained in line as compared to previous year and remained modest at Rs.23.38 crore on account of stable demand from its existing customers. The PBILDT margin of MTFPL has dipped over the previous year and stood at 8.37% as against 10.52% in FY16 on account of higher raw material procurement cost coupled with increase in employee expense in FY17. Consequently the PAT margin had also dipped by 30 bps and stood at 1.29% during FY17 as compared to 1.59% in FY16.

Moderate capital structure and liquidity position

As on March 31, 2017, the capital structure of MTFPL improved over the previous year but remained moderate as marked by an overall gearing ratio of 1.31x as against 2.27x as on March 31, 2016 on account decrease in total debt.

The liquidity position has improved marginally over the previous year and remained moderate, the current ratio and quick ratio continued to remain below unity as on balance sheet date. Further, working capital cycle of MTFPL has improved to 42 days from 64 days during FY16 mainly on account of decrease 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

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

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 debt coverage indicators
During FY17, an interest coverage ratio has improved and stood at 3.34x as against 2.27x during FY16 on account of lower interest cost as compared to previous year. Also total debt to GCA has improved and stood at 3.85x as on March 31, 2017 as against 6.00x as on March 31, 2016 due to decrease in debt.

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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	23.23	23.38
PBILDT	2.44	1.96
PAT	0.37	0.30
Overall gearing (times)	2.27	1.31
Interest coverage (times)	2.30	3.34

A: Audited

Till November 24, 2017, MTFPL has achieved total operating income of Rs.20.00 crore.
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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CARE Ratings commenced operations in April 1993 and over nearly 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

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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
Fund-based - LT-Cash Credit	-	-	-	3.00	CARE BB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	0.16	CARE A4
Fund-based - LT-Term Loan	-	-	May, 2021	0.98	CARE BB-; Stable

Annexure 2: Rating History for 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.59	CARE BB-; Stable	-	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)	1)CARE B+ (09-Mar-15) 2)CARE B+ (07-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB-; Stable	-	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)	1)CARE B+ (09-Mar-15) 2)CARE B+ (07-Apr-14)
3.	Non-fund-based - ST-BG/LC	ST	0.16	CARE A4	-	1)CARE A4 (15-Mar-17)	1)CARE A4 (21-Mar-16)	1)CARE A4 (09-Mar-15) 2)CARE A4 (07-Apr-14)
4.	Fund-based - LT-Term Loan	LT	0.98	CARE BB-; Stable	-	1)CARE BB-; Stable (15-Mar-17)	1)CARE BB- (21-Mar-16)	1)CARE B+ (09-Mar-15) 2)CARE B+ (07-Apr-14)

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