Maharaja Cotspin Limited

September 10, 2019

Ratings

S.No.	Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
(i)	Long-term Bank Facilities (Fund Based - Term Loan)	17.64	**CARE D (Single D)**	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
(ii)	Long-term Bank Facilities (Fund Based – Cash Credit)	10.00	**CARE C; Negative (Single C; Outlook: Stable)**	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
(iii)	Long-term Bank Facilities (Fund Based – Line of Credit)	1.10	**CARE C; Negative (Single C; Outlook: Stable)**	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
(iv)	Short-term Bank Facilities	15.60	**CARE A4 (A Four)**	Revised from CARE A4+ (A Four Plus)
	Total Facilities	**44.34 (Rs. Forty Four crore and Thirty Four lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating (i) above of Maharaja Cotspin Limited (MCL) factors in instances of delays in servicing of the term debt obligations by the company. The revision in the ratings (ii) and (iii) above takes into account overdrawals in the cash credit limit, for a period of less than 30 days. This has been mainly on account of stretched liquidity position of the company.

Further, the ratings continue to be constrained by its small scale of operations, high reliance on the working capital borrowings, with customer & geographical concentration risks in its revenue profile, susceptibility of margins to raw material and foreign exchange price fluctuations and competitive and fragmented nature of the textile industry.

The ratings, however, derive strength from the experienced promoters, semi-integrated nature of operations and a diversified product profile along with the strategic location of the manufacturing facility.

Going forward, the company's ability to service its debt obligations in a timely manner, profitably scale-up of its operations, manage the working capital requirements efficiently and improve its overall solvency position will remain the key rating sensitivities. Any new capex and funding mix for the same impacting the credit profile will also remain a key rating sensitivity.

Outlook: Negative

The negative outlook is on account of weak liquidity position of the company with regular instances of delays in the servicing of the debt obligations . The outlook may be revised to 'Stable' if the company is able to timely repay its debt obligations and profitably scale-up its operations while maintaining a comfortable liquidity position.

Detailed description of the key rating drivers

Key Rating Weaknesses

***Instances of delays in the debt servicing*:** As per the account statements provided by the company, there have been instances of delays in the servicing of the repayment obligations for the term loans availed by the company. Further, there have also been instances of overdrawals in the fund based limits availed by the company for a period of less than 30 days. The same has been on account of stretched liquidity position of the company.

Susceptibility of margins to fluctuations in raw material prices and foreign exchange fluctuations: The operations of MCL are highly raw material intensive in nature with the material cost constituting ~70% on an average (of the total income) for the last three years. The primary raw materials of the company are polyester and acrylic fiber, prices of which are directly linked to crude oil prices which in turn are highly volatile in nature. The company usually engages in bulk procurement of raw material to avail discounts. Subsequently, sales orders are booked at prices that factor in the raw material costs. However, operations in a highly competitive industry limits the ability of the company to pass on increased costs to the customers thereby exposing the profitability margins to any adverse movement in the raw material prices. Furthermore, the company is engaged in exports and some of its raw material need is also met from outside India. Since the company is not engaged in any hedging mehanism, the profitability margins remain exposed to adverse fluctuations in the foreign exchange rates.

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

Small scale of operations: The scale of operations of the company remained small at Rs. 111.20 Cr. in FY18 (Audited; refers to the period from April 01 to March 31).

Customer and geographical concentration risk: The company has a concentrated revenue stream with top-5 customers contributing ~38% of the total income in FY18 (~30% in FY17). Any change in the procurement policy of these customers may adversely impact the business of the company. This also exposes the company's revenue growth and profitability to its customer's future growth plans. Furthermore, the company's operations are limited to the Punjab state only, and especially to Ludhiana city, despite being in operations for around six years, thus exposing it to geographical concentration in its revenue profile.

Highly fragmented and competitive nature of the industry: The organized sector in the textile industry, consisting of large-scale spinning units and composite mills, is responsible for the majority of installed capacity of the yarn production. The unorganized sector, consisting of small scale spinning units, accounts for rest of the capacity. This leads to highly fragmented industry structure having high level of competition and intense pricing pressures on the players operating in the industry.

Key Rating Strengths
Experienced promoters: The promoters have around two decades of experience in the textile industry. The directors are further assisted by a team of professionals who are highly experienced in their respective domains. Furthermore, to fund various business requirements of the company, funds in the form of unsecured loans have been infused in by the promoters/related parties stood at Rs.7.44 crore, as on March 31, 2018.

Semi-Integrated nature of operations: The company has an in-house spinning division which provides it with certain level of integration as majority (~90-95%) of the polyester yarn manufactured by the company is used in the manufacturing of knitted fabrics. The same has led to healthy PBILDT margins in the past.

Diversified product profile with favorable location of operations: MCL is engaged in the business of manufacturing of acrylic yarn and knitted fabric from polyester yarn and also sells polyester yarn in the open market. Furthermore the company produces varied thickness of these yarns ranging from 18-30 counts. This further diversifies the product profile of the company. The manufacturing facility of the company is located in Ludhiana, Punjab. The company therefore benefits from the location advantage in terms of easy accessibility to a large customer base as-well-as easy availability of raw materials.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria for short term instruments

Liquidity: Stretched: Liquidity is marked by highly utilized bank limits, tightly matched accruals to repayment obligations, and modest cash balance of Rs. 0.09 cr., as on March 31 2018. The current ratio and quick ratio of the company stood weak at 1.00x and 0.72x, respectively, as on March 31, 2018 (PY: 0.93x and 0.62x). The company had a total debt repayment obligation of Rs. 7.08 cr. in FY19, which was proposed to be met through the internal accruals [GCA of Rs.7.14 Cr. in FY18].

About the Company
Maharaja Cotspin Limited (MCL) was incorporated in April 2010 as a closely-held public limited company, however, the operations of the company started in August-2011. The company is primarily engaged in the manufacturing of yarns and knitted fabrics at its sole manufacturing facility located at Ludhiana, Punjab with an installed capacity of 26208 spindles for yarn manufacturing and 29 circular knitted machines for knitted fabric manufacturing, as on March 31, 2018. The company is also engaged in the trading of yarns and knitted fabric. The group concerns of the company include Eshan Yarns Private Limited (EYPL; rated CARE BB-; Stable) which is engaged in manufacturing of polyester fabrics, M/s Maharaja Fabrics (engaged in the manufacturing of knitted fabrics from polyester yarn), M/s Maharaja Trading Company (engaged in the trading of fibers and yarn) and Maharaja Dyeing and Furnishing Mills (engaged in business of dyeing of fabrics).

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

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	108.79	111.20
PBILDT	14.09	12.32
PAT	1.69	1.47
Overall gearing (times)	2.79	2.83
Interest coverage (times)	2.70	2.50

A: Audited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated May 16, 2016 on account of non-cooperation by Maharaja Cotspin Limited with CRISIL's efforts to undertake a review of the outstanding ratings.
SMERA has conducted the review on the basis of best available information and has classified Maharaja Cotspin Limited as "Not cooperating" vide its press release dated October 06, 2017.

Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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-Cash Credit	-	-	-	10.00	CARE C; Negative
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A4
Fund-based - LT-Term Loan	-	-	September-2022	17.64	CARE D
Fund-based - LT-Line Of Credit	-	-	-	1.10	CARE C; Negative
Non-fund-based - ST-Bank Guarantees	-	-	-	0.60	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE C; Negative	-	1)CARE BB+; Stable (06-Sep-18)	1)CARE BB; Stable (04-Aug-17)	-
2.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A4	-	1)CARE A4+ (06-Sep-18)	1)CARE A4 (04-Aug-17)	-
3.	Fund-based - LT-Term Loan	LT	17.64	CARE D	-	1)CARE BB+; Stable (06-Sep-18)	1)CARE BB; Stable (04-Aug-17)	-
4.	Fund-based - LT-Line Of Credit	LT	1.10	CARE C; Negative	-	1)CARE BB+; Stable (06-Sep-18)	1)CARE BB; Stable (04-Aug-17)	-
5.	Non-fund-based - ST-Bank Guarantees	ST	0.60	CARE A4	-	1)CARE A4+ (06-Sep-18)	1)CARE A4 (04-Aug-17)	-

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

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.*

Contact us

Media Contact
Name - Mradul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Name - Sudeep Sanwal
Contact no. - 0172-4904025
Email ID - sudeep.sanwal@careratings.com

Relationship Contact
Name - Ananda Prakash Jha
Contact no. - 0172-4904001
Email ID - anand.jha@careratings.com

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