

Maharaja Cotspin Limited

October 25, 2019

Ratings

S No.	Facilities	Amount (Rs. crore)	Ratings ¹	Ratings Action
(i)	Long-term Bank Facilities (Fund Based- Term Loan)	17.64	CARE D; ISSUER NOT COOPERATING* (Single D; Issuer Not Cooperating)	Issuer not cooperating; Based on best available information
(ii)	Long-term Bank Facilities (Fund Based- Cash Credit)	10.00	CARE C; Negative; ISSUER NOT COOPERATING* (Single C; Outlook: Negative; Issuer Not Cooperating)	Issuer not cooperating; Based on best available information
(iii)	Long-term Bank Facilities (Fund Based – Line of Credit)	1.10	CARE C; Negative; ISSUER NOT COOPERATING* (Single C; Outlook: Negative; Issuer Not Cooperating)	Issuer not cooperating; Based on best available information
(iv)	Short-term Bank Facilities	15.60	CARE A4; ISSUER NOT COOPERATING* (A Four; Issuer Not Cooperating)	Issuer not cooperating; Based on best available information
	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

CARE has been seeking information from Maharaja Cotspin Limited (MCL) to monitor the ratings vide e-mail communications/letters dated July 19, 2019; July 31, 2019; August 07, 2019; August 12, 2019; August 19, 2019; August 27, 2019; October 04, 2019; October 07, 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 ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on Maharaja Cotspin Limited's bank facilities will now be denoted as **CARE D/CARE C; Negative/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 rating(s).

Detailed description of the key rating drivers

At the time of last rating on September 10, 2019, the following was the rating weaknesses and strengths.

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.

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,

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

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 mechanism, the profitability margins remain exposed to adverse fluctuations in the foreign exchange rates.

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

[Policy in respect of Non-cooperation by issuer](#)

[CARE's policy on default recognition](#)

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

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

[CARE's methodology for Manufacturing companies](#)

[Criteria on Cotton Textile Manufacturing](#)

[CARE's methodology for Short Term Instruments](#)

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.

ACUITE 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 November 19, 2018.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of 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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Term Loan	-	-	September, 2022	17.64	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Line Of Credit	-	-	-	1.10	CARE C; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	0.60	CARE A4; 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 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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE C; Negative (10-Sep-19)	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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A4 (10-Sep-19)	1)CARE A4+ (06-Sep-18)	1)CARE A4 (04-Aug-17)	-
3.	Fund-based - LT-Term Loan	LT	17.64	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE D (10-Sep-19)	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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE C; Negative (10-Sep-19)	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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	1)CARE A4 (10-Sep-19)	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.

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About CARE Ratings:

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 service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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