Maharaja Shree Umaid Mills Limited

September 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	31.67	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE BB; Positive (Double B; Outlook: Positive)**
Long-term/Short-term Bank Facilities	70.00	**CARE BB; Stable / CARE A4 (Double B; Outlook: Stable / A Four)**	**Revised from CARE BB; Positive / CARE A4(Double B; Outlook: Positive / A Four)**
Short-term Bank Facilities	17.97	**CARE A4 (A Four)**	**Reaffirmed**
Total facilities	**119.64 (Rupees One Hundred Nineteen crore and Sixty Four lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Maharaja Shree Umaid Mills Limited (MSUML) continue to factor in its financial profile marked by loss at net level in FY19 (refers to the period April 1 to March 31) and weak debt coverage indicators. The ratings further remain constrained on account of working capital intensive nature of operations as well as inherent cyclicality associated with the textile industry with impact of government policies and climatic conditions which results in volatility in raw material prices. The rating also factors in moderation in PBILDT margin in Q1FY20.

The ratings, however, derive strength from the experience of the promoter group in the textile industry along with their financial resourcefulness and their continued financial support by way of infusion of funds in the form of equity and unsecured loans in order to support the operations as well as timely debt servicing of MSUML. The ratings also take into account its established track record with integrated nature of operations, strong presence in the poplin fabric segment, moderate capital structure and diversified client base. The ratings also factors in improvement in operating profit margin and reporting of cash profits in FY19 though the same stood lower than envisaged level.

MSUML's ability to increase its scale of operations along with improvement in profitability margins by optimum utilisation of the capacities and efficient working capital management along with receipt of timely financial support from promoter group as and when required would be the key rating sensitivities.

Outlook: Stable

The revision in the rating outlook is mainly on account of significant under-achievement in envisaged profitability and gross cash accruals for FY19.

Detailed description of the key rating drivers

Key rating weaknesses

Continuing losses at net level albeit cash profits generated in FY19

The company continued to report loss at net level; though, the same reduced significantly from Rs.35.49 crore in FY18 to Rs.4.68 crore in FY19 due to improvement in operating profitability. Resultantly, the company reported gross cash accruals of Rs.9.49 crore in FY19 as against cash losses in FY18. However, the company has reported significant under-achievement in operating profitability and gross cash accruals as against what was envisaged for FY19. Further, TOI was also lower than envisaged level for FY19.

Weak debt coverage indicators

Debt coverage indicators continued to remain weak; though the same improved with PBILDT interest coverage of 1.22 times as on March 31, 2019 as against 0.41 times as on March 31, 2018. Total debt to GCA stood around 35.64 times as on March 31, 2019 on account of high debt level and lower cash profits.

Inherent cyclicality associated with the textile industry with impact of government policies and climatic conditions which results in volatility in raw material prices

Cotton is the key raw material which constituted majority of total raw material consumed cost for MSUML. In India, which has one of the largest cotton cultivated area in the world; several factors such as variability in monsoon and returns from competitive crops play a significant role in influencing the cotton planting decision of farmers. Technological improvements such as better quality of cotton seeds have played a critical role in enhancing cotton production in India and improve yield per hectare over the few years. The minimum support purchase price (MSP) for cotton has been kept in line with market

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

scenario which in turn has encouraged farmers to plant more cotton. Prices of cotton have historically been very volatile since it is a globally traded commodity and prices are determined by global demand-supply situation. As such, the profitability of textile players largely depends on volatility in cotton prices and ability of the company to timely pass on the rise in prices to its customer.

World cotton production is expected to rise 6.9 percent in 2019-20 to a near-record 126.5 million bales. Furthermore, production in India is likely to increase in 2019-20 over last year largely due to better monsoon vis-à-vis last year. However, prices are expected to moderate during 2019-20 over last year. The profitability margin of the company is susceptible to volatile cotton prices. While these factors provide certain degree of comfort, it is important that MSUML improves its profitability on a sustainable basis. Going forward, ability of the company to manage volatility in cotton and yarn prices, sustain competition and thereby improve profitability would be key rating sensitivity.

Poor liquidity position

The company's liquidity position was poor marked by high debt repayments vis-à-vis cash accruals with continuous financial support being received from promoter group for debt servicing. The operations of the company are working capital intensive in nature marked by higher inventory holding. Despite increase in average inventory days in FY19, operating cycle stood at similar level of 82 days on account of increase in average creditor period to 18 days. Utilization of fund-based limits increases during cotton procurement season which normally ranges from October to March. The average utilization of cash credit limit stood around 73% for the past 12 months ended July 2019. Moreover, net cash flow from operating activities stood at Rs.31.88 crore in FY19 as against Rs.43.45 crore in FY18. The company has cash and bank balance of Rs.3.59 crore as on March 31, 2019 and it envisages gross cash accruals of Rs.23-24 crore against term debt repayments of bank loans of Rs.20.89 crore during FY20.

The key raw material for the company is raw cotton. MSUML procures majority of its requirement of cotton from the domestic market on credit of maximum 30 days with few suppliers being paid instantly. Apart from procuring a majority of its requirement of cotton from surrounding areas within Rajasthan itself, it sources a part of its requirement of cotton from Gujarat. Cotton being a seasonal product needs to be procured during the season for production in the subsequent months. Thus, inventory levels in the company generally remain high at the year end. MSUML has little control on the prices of raw cotton. Further, the company extends a credit of up to 30 days to its customers of yarns while up to maximum of 60 days to customers of fabrics with maximum of 30 days for poplin fabric. Current ratio stood below unity as on March 31, 2019.

Key Rating Strengths

Improvement in total operating income and operating profitability in FY19

The total operating income (TOI) of the company grew marginally by 6% on account of increase in sales volume of fabrics which was also supported by increase in average sales realisation of cotton yarn. Revenue from exports grew by around 20% on y-o-y basis to Rs.59.09 crore in FY19. Revenue from sale of wind power grew by around 13% on y-o-y basis to Rs.10.80 crore in FY19 with improvement in generation resulting to higher PLF level.

PBILDT margin of the company improved by 577 bps on y-o-y basis to 9.21% in FY19 on account of improvement in average sales realisation of yarn along with rationalisation of power, employee as well as other operating expenses. The company has installed 5.15 MW solar plant at vacant land available in its manufacturing facility at Pali, Jodhpur for captive consumption in order to reduce its power cost which has commenced operations in Q4FY19.

As per un-audited results for Q1FY20, the company has reported TOI of Rs.107.50 crore with PBILDT and net loss of Rs.10.14 crore and Rs.2.77 crore respectively as against TOI of Rs.115.91 crore with PBILDT and net loss of Rs.11.18 crore and Rs.2.45 crore respectively in Q1FY19. The operating margin declined marginally on account of increase in raw material consumed cost.

Moderate capital structure

The company has reinstated its fixed assets at fair value which has resulted to corresponding increase in retained earnings of the company w.e.f. April 01, 2017. The capital structure stood moderate with overall gearing of 0.69 times as on March 31, 2019 as against 0.82 times as on March 31, 2018 on account of decline in debt level as on March 31, 2019 and conversion of inter-corporate deposit of Rs.50 crore into equity share capital. Moreover, inter-corporate deposits to the tune of Rs.23.16 crore are sub-ordinate to bank borrowings and the same has been considered as quasi capital.

Experienced promoter group in textile industry with financial resourcefulness

Mr L N Bangur, present Chairman & Managing Director of MSUML, is associated with the company since 1988 and has experience of more than two decades in running textile mill through his association with the company. The promoter group is professionally qualified and have a long standing track record in the textile industry. The promoter group is financially resourceful and has demonstrated regular support for ensuring timely debt servicing of MSUML as indicated by regular fund infusion. The level of unsecured loans from promoter group (apart from Rs.23.16 crore considered as quasi-equity) stood at Rs.223.94 crore as on March 31, 2019.

Established track record of operations and wide range of product portfolio with strong presence in poplin fabric segment
MSUML is one of the oldest composite textile mills in northern India having more than seven decades of track record with an established presence in domestic market. The company manufactures carded, compact, combed hosiery and weaving yarns, bleached sewing thread and knitted cotton yarns. Further, the company utilises its own manufactured yarn as well as sources from outside to manufacture grey and finished fabrics; though one of the finished fabrics i.e. dyed poplin has remained the key product for the company.

Industry Outlook
Cotton yarn prices are highly volatile due to volatility in the demand (depending on price of the substitute – synthetic yarn), which is majorly impacted by exports of cotton and cotton yarn. After remaining largely range bound in FY18, cotton yarn production in India registered a growth of about 3% y-o-y in FY19. Cotton yarn production stood at 4,182 million kgs during FY19 and is expected to witness an increase of about 3-5% from current levels and reach 4,300 – 4,400 million kgs in FY20 on back of higher demand from China, Bangladesh and Vietnam. Cotton yarn demand in India remained sluggish during FY19 at 2,933 million kgs registering a decline of about 1.4% y-o-y after increasing by about 3.9% during the same period last year. However, export demand witnessed a strong double-digit growth of 14.7% y-o-y and stood at 1,261 million kgs after declining by about 8.8% during FY18.
Domestic yarn demand continues to be sluggish with substitution taking place from Man Made Fibre (MMF). However, cotton yarn demand will be closely monitored due to China's cotton policy and diminishing stockpiles as well as high crude oil prices that impact the prices of its substitute – manmade fibres (synthetic yarns). Further, CARE expects the domestic apparel market to grow by 10% - 12% in FY20 driven by the growth in the Indian economy leading to the rise in disposable income, favourable demographics and growing share of working women in the country.

Analytical Approach: Consolidated. *Consolidated financials of the company includes financials of wholly owned subsidiary-MSUM Texfab Limited which has been formed with an objective to operate in similar business of textiles. Further, the company is a part of LN Bangur group and has been receiving continuous financial support from its group entities.*

Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology- Cotton Yarn
Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

About the Company
MSUML was incorporated in 1939 as a private limited company by Late Mr Mugneeram Bangur and was subsequently converted into public limited company in 1952. MSUML is the flagship company of L N Bangur (LNB) group and is engaged in manufacturing of cotton yarn and fabrics at its manufacturing facility located at Pali, Rajasthan. Under yarn segment, the company manufactures variety of combed, carded and other value added yarns like lycra yarns, slub yarns and ellie twist yarns among others. Under fabric segment, the company manufactures grey as well as dyed cotton (poplin) fabrics. The poplin produced by the company is used for making petticoat for sarees. As on March 31, 2019, MSUML has installed capacity of 96,000 spindles and 1,944 rotors (20,755 metric tonnes per year [MTPY]) for yarn division and 237 looms (4,00,95,250 meters per year [MPY]) for fabric division. The company has shut down its processing unit due to operational bottlenecks. The company has also installed wind mills in Rajasthan with total installed capacity of 17.45 MW as on March 31, 2019 out of which 2.10 MW is being utilized for captive consumption and the company has signed power purchase agreement with Rajasthan based power utilities for remaining 15.35 MW. Furthermore, the company has installed 5.15 MW solar plant during Q4FY19 to be utilized for captive consumption.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	455.28	483.05
PBILDT	15.66	44.49
PAT	-35.49	-4.68
Overall gearing (times)	0.82	0.69
Interest coverage (times)	0.41	1.22

A: Audited
Status of non-cooperation with previous CRA: None

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-Term Loan	-	-	July-2020	31.67	CARE BB; Stable
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	12.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	5.97	CARE A4
Fund-based - LT/ ST-Cash Credit	-	-	-	70.00	CARE BB; Stable / 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-Term Loan	LT	31.67	CARE BB; Stable	-	1)CARE BB; Positive (04-Oct-18)	1)CARE BB; Stable (24-Nov-17)	1)CARE BB (16-Nov-16) 2)CARE BBB- (19-May-16)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	12.00	CARE A4	-	1)CARE A4 (04-Oct-18)	1)CARE A4 (24-Nov-17)	1)CARE A4 (16-Nov-16) 2)CARE A3 (19-May-16)
3.	Non-fund-based - ST-BG/LC	ST	5.97	CARE A4	-	1)CARE A4 (04-Oct-18)	1)CARE A4 (24-Nov-17)	1)CARE A4 (16-Nov-16) 2)CARE A3 (19-May-16)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	70.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Positive / CARE A4 (04-Oct-18)	1)CARE BB; Stable / CARE A4 (24-Nov-17)	1)CARE BB / CARE A4 (16-Nov-16) 2)CARE BBB- / CARE A3 (19-May-16)
5.	Fund-based - ST-	ST	-	-	-	-	1)Withdrawn	1)CARE

	Working Capital Demand loan						(24-Nov-17)	A4 (16-Nov-16) 2)CARE A3 (19-May-16)

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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