Maharaja Shree Umaid Mills Limited

October 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	62.95	**CARE BB; Positive (Double B; Outlook: Positive)**	**Reaffirmed (Outlook revised from Stable)**
Long-term/Short-term Bank Facilities	70.00	**CARE BB; Positive / CARE A4 (Double B; Outlook: Positive / A Four)**	**Reaffirmed (Outlook revised from Stable)**
Short-term Bank Facilities	25.97	**CARE A4 (A Four)**	**Reaffirmed**
Total facilities	**158.92 (Rupees One Hundred Fifty Eight crore and Ninety Two lakh Only)**		

Details of facilities in Annexure-I

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 net as well as cash losses incurred during FY18 (refers to the period April 01 to March 31) as well as leveraged capital structure 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 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 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, wide range of product portfolio with strong presence in the poplin fabric segment and diversified client base. The ratings also take into account improvement in operating profit margin in FY18 as well as improvement in overall financial performance in Q1FY19.

Continuous financial support from the promoter group as well as 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 would be the key rating sensitivities.

Outlook: Positive

The revision in the rating outlook is mainly on account of expected improvement in operating and financial profile following improvement in operating profit margins and reporting of cash profits in Q1FY19 over the same period last year. However, the outlook may be revised to 'Stable' if the company's operating and financial performance does not improves as envisaged.

Detailed description of the key rating drivers

Key rating weaknesses

Net as well as cash losses reported in FY18

The company reported operating profit of Rs.18.53 crore in FY18 as against operating loss in FY17. However, on account of high depreciation and interest expenses, the company reported net as well as cash losses in FY18 though the losses have come down in FY18.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the company stood leveraged due to deterioration of net-worth on account of continuous losses reported by the company over the past four years ended March 31, 2018. Furthermore, the promoter group has infused unsecured loans in the form of ICDs to support debt repayments. Unsecured loans of Rs.23.16 crore are sub-ordinated to bank loan and will be maintained till the currency of bank loan and hence the same has been considered as quasi equity.

Debt coverage indicators continued to remain weak. Although PBILDT interest coverage improved over FY17, the same stood below unity in FY18. Moreover, on account of cash losses reported during FY18, the total debt to GCA stood negative as on March 31, 2018. With improvement in financial performance, PBILDT interest coverage has improved to 1.25 times in Q1FY19.

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

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

Prices of cotton have historically been very volatile since it is a globally traded commodity and prices are determined by global demand-supply situation. Textile is a cyclical industry and closely follows the macroeconomic business cycles. High competitive intensity in the textile industry, volatility in cotton prices and capacity additions by large players are the major cause of concern for the Indian textile industry.

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by higher inventory holding. Despite increase in average inventory days in FY18, operating cycle improved marginally to 83 days on account of decline in average collection period to 38 days. The average utilization of cash credit limit stood around 83% for the past 12 months ended July 2018. Moreover, net cash flow from operating activities improved to Rs.21.47 crore in FY18. However, current ratio stood below unity as on March 31, 2018.

Key Rating Strengths

Marginal improvement in scale of operations in FY18 along with improvement in financial performance in Q1FY19

MSUML's TOI grew marginally by around 3% on y-o-y basis to Rs.460.75 crore in FY18 on account of increase in sales quantity of fabrics along with increase in average sales realisation of yarn and fabrics.

As per un-audited results for Q1FY19, the company reported TOI of Rs.115.91 crore with PBILDT of Rs.11.18 crore and net loss of Rs.2.45 crore. Furthermore, the company has reported cash profits of Rs.2.25 crore in Q1FY19 as against cash losses in Q1FY18. The company has taken various cost rationalisation initiatives which have resulted in improvement in its operating efficiency leading to reporting of cash profits in Q1FY19 and it is expected that the company will get benefitted going forward due to the same.

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.

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 prices during the year 2017-18 remained largely stable or increased only marginally on back of higher supply in the market. Going forward, in CS 2018-19, domestic consumption of cotton is expected to marginally improve on back of improvement in exports demand, mainly from China along with higher MMF (man-made fibres) cost due to increasing crude oil prices. With the industry now stabilizing post the demonetization and the implementation of the goods and service tax (GST) regime, the demand from downstream industry - apparels and made-ups from both domestic and international markets, has marginally picked up.

In CS 2018-19, CARE expects cotton prices to marginally pick up from the current levels and remain firm with the new cotton arrivals in the market on back of strong export demand and increased MSP by the government. With limited supply in the market during H1 CS 2018-19 on account of increased orders from China, prices are expected to register a growth of about 5-7% during this period.

With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players into the Indian market.

Analytical Approach: Consolidated

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

Factoring Linkages

About the Company
MSUML is the flagship company of L N Bangur (LNB) group and is engaged in manufacturing of cotton/synthetic yarn and fabrics at its manufacturing facility located at Pali, Rajasthan. MSUML manufactures cotton and polyester yarns with cotton yarns being the main product as the company has discontinued polyester yarn manufacturing from FY18 onwards. Under fabric segment, the company manufactures dyed cotton fabric (poplin), suiting and shirting fabrics. The poplin produced by the company is used for making petticoat for sarees. The company has also installed wind mills in Rajasthan with total installed capacity of 17.45 MW as on March 31, 2017 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	448.80	460.75
PBILDT	-13.01	18.53
PAT	-50.82	-32.69
Overall gearing (times)	5.21	5.97
Interest coverage (times)	-0.33	0.48

A: Audited

Status of non-cooperation with previous CRA: None
Any other information: None
Rating History for last three years: Please refer Annexure-2
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.

Analyst Contact
Name: Harsh Raj Sankhla
Tel # 0141-4020213/214
Cell: 9413969100
Email: harshraj.sankhla@careratings.com

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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	-	-	Q3FY43	62.95	CARE BB; Positive
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	20.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	5.97	CARE A4
Fund-based - LT/ ST-Cash Credit	-	-	-	70.00	CARE BB; Positive / 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 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	62.95	CARE BB; Positive	-	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	20.00	CARE A4	-	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 (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; Positive / CARE A4	-	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-Working Capital Demand loan	ST	-	-	-	1)Withdrawn (24-Nov-17)	1)CARE A4 (16-Nov-16) 2)CARE A3 (19-May-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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