Maharaja Shree Umaid Mills Limited

November 02, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	2.60	**CARE BB; Stable (Double B; Outlook: Stable)**	Assigned
Long Term Bank Facilities	11.91	**CARE BB; Stable (Double B; Outlook: Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	73.00 (Enhanced from 70.00)	**CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four)**	Reaffirmed
Short Term Bank Facilities	1.00	**CARE A4 (A Four)**	Assigned
Short Term Bank Facilities	2.00 (Reduced from 5.00)	**CARE A4 (A Four)**	Reaffirmed
Total Facilities	**90.51 (Rs. Ninety Crore and Fifty-One Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to bank facilities of Maharaja Shree Umaid Mills Limited (MSUML) is constrained on account of its moderate financial profile marked by decline in total operating income (TOI) along with incurring of loss at net level in FY20 (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 its 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 also factor in moderation in revenue during H1FY21 on account of disruption caused due to outbreak of covid-19 which has impacted its overall performance.

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 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 factor in improvement in operating margin in FY20. It may be noted that, the company has not availed the moratorium granted by the lenders as a COVID relief measure (as permitted by the Reserve Bank of India) for its debt obligations.

Rating Sensitivities

Positive factors-

- ✓ Significant increase in scale of operations and improvement in operating margin along with reporting of profit at net level
- ✓ Improvement in debt coverage indicators with total debt to GCA of less than 10 times and interest coverage of more than 1.5 times

Negative factors-

- × Significant decline in scale of operations with TOI falling below Rs.250 crore with significant increase in net loss
- × Deterioration in capital structure with overall gearing exceeding 1 time

Detailed description of the key rating drivers

Key rating weaknesses

Moderation in total operating income in FY20 although operating margin improved

The TOI of MSUML moderated by 17% on y-o-y basis to Rs.399.07 crore in FY20 mainly on account of decline in sales quantity and average sales realisation of cotton yarn. The TOI was also impacted to some extent on account of stoppage of plant's operations from March 22, 2020 due to lockdown announced on account of outbreak of covid-19 which has also resulted in lower sales during the month of March 2020. Sales quantity of cotton yarn declined by 20.91% in FY20 over last year while; sales quantity of fabrics declined marginally by 0.80% during the same period. The production of cotton yarn declined by around 21% in FY20 on y-o-y basis on account of decline in installed capacity following removal of old less productive machineries along with lower demand for cotton yarn. Revenue from sale of wind power moderated by around 8% on y-o-y basis to Rs.9.88 crore in FY20 on account of marginally lower PLF level.

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

Despite decline in TOI, PBILDT margin improved by 64 bps on account of lower raw material consumed cost and savings in power cost post installation of solar power plant. The company has reported better sales realisation in poplin segment during FY20 over last year. However, average sales realisation in cotton yarn as well as shirting/suiting fabric segment declined during FY20 with a decline in price of cotton.

Continuing losses at net level
On account of high depreciation and interest expenses, the company continued to report loss at net level. The gross cash accruals declined from Rs.9.49 crore in FY19 to Rs.7.84 crore in FY20.

Weak debt coverage indicators
Debt coverage indicators continued to remain weak with PBILDT interest coverage of 1.22 times in FY20 (1.22 times in FY19). Total debt to GCA stood around 32.95 times as on March 31, 2020 as against 35.64 times as on March 31, 2019.

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 increased in CS20 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.

Liquidity- Stretched
Liquidity position of the company is stretched marked by lower cash accrual vis-à-vis debt repayments. Timely support from promoter group through infusion of funds has helped the company in servicing its debt obligations in the past. Average utilisation of fund based working capital limit stood moderate around 74% during past 12 months ended July 2020 that provides some cushion. Moreover, the company is maintaining DSRA equivalent to 3 months interest and principal for part of the facilities as stipulated by one of the lenders which provides additional comfort. The company currently has DSRA balance of Rs.1 crore to cover principal and interest obligations of 3 months. The company has not availed moratorium on its bank facilities and has been servicing its debt obligations timely.

Working capital intensive nature of operations
The operations of the company are working capital intensive in nature marked by higher inventory holding. Operating cycle of the company elongated from 82 days in FY19 to 92 days in FY20 despite significant decline in inventory level as on March 31, 2020 due to lower TOI (lower base effect) during FY20. The key raw material for the company is raw cotton. MSUML procures majority of its requirement of cotton from the domestic market mainly Rajasthan and Gujarat on credit of maximum 30 days with few suppliers being paid instantly. The company also gets support from its group entities for sourcing of cotton. Cotton being a seasonal product needs to be procured during the season for production in the subsequent months. Thus, inventory level in the company generally remains 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 cotton yarns while up to maximum of 60 days to customers of fabrics with maximum of 37 days for poplin fabric. Current ratio improved to 1.25 times as on March 31, 2020 from below unity level as on March 31, 2019 due to lower short term debt repayment obligations.
The company has debtors more than six months of Rs.9.44 crore (net of provision created of Rs.3.50 crore) as on March 31, 2020 of which outstanding from Jodhpur Vidyut Vitran Nigam Limited (JdVVNL) stood around Rs.9.06 crore for power sold to JdVVNL. The company has realised entire dues (Rs.9.06 crore) from JdVVNL as on September 03, 2020 and expects to realise remaining other debtors in some time. Moreover, the company reported net cash flow from operating activities of Rs.64.64 crore during FY20.

Impact of Covid-19 pandemic
The plant's operations were completely closed from March 22, 2020 due to lockdown announced in the country on account of outbreak of COVID-19. The manufacturing operations commenced from June 09, 2020 and the company has gradually ramped up production activities. The company's sales got impacted during Q1FY21 and the company reported net sales of Rs.15.99 crore only during the said period. The same has gradually picked thereafter as the company has reported revenue from operations of Rs.81.10 crore during H1FY21. The company has not availed moratorium announced by RBI and has serviced its debt obligations timely.

Key Rating Strengths
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 0.46 times as on March 31, 2020 as against 0.69 times as on March 31, 2019; improved due to higher subordination of debt. As per the conditions of latest sanction from one of the lenders, Placid Limited (Holding company of MSUML) has given undertaking that unsecured loans of Rs.100 crore (earlier, the level was Rs.23.16 crore) would be maintained till the currency of bank loan and hence the same has been treated 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. He is a graduate by qualification and has a long and varied experience in various industries like plantations, paper and textiles apart from trading and investment activities. He is also an active committee member of Federation of Indian Chamber of Commerce and Industry. Mr Yogesh Bangur, Deputy Managing Director, is a MS (programme and project) by qualification and is associated with the company since 2008. The promoter group is professionally qualified and have a long standing track record in the textile industry. The company has professionally qualified team at every functional level to look after the activities of the respective departments.
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 inter-corporate deposits from the promoter group stood at Rs.273.75 crore (Rs.247.10 crore as on March 31, 2019) as on March 31, 2020 including unsecured loan of Rs.100 crore considered as quasi equity.
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. MSUML has a diversified client base with top 10 customers contributing around 35% (38% in FY19) of its TOI during FY20. MSUML's client base mainly includes its distributors who have long association with the company.

Industry Outlook
The demand for textiles will face headwinds in both the markets, domestic and international. The outbreak of covid-19 has impacted sales across retail stores and malls in domestic market during current year. On the international front, the outbreak of Covid-19 is expected to keep the textiles demand under pressure in China thus hurting the Chinese cotton yarn and polyester markets. China is the largest export destination for India's cotton yarn outbound shipments. Therefore, muted demand from China is likely to affect India's total cotton yarn outbound shipments and the export unit realisations and the domestic prices. Cotton yarn prices, which were already under pressure in FY20, are expected to decline further in FY21. However, cotton being a seasonal crop, major procurement by spinning mills happens till February/ March, thereby fixing their procurement costs. With yarn realization expected to decline, and majority of the procurement cost already fixed, the spread and profitability margins of the industry players are expected to witness a further deterioration. Going forward the textile industry scenario will depend on how the situation evolves in the domestic and international markets and faster return to normalcy will enable the industry to curtail the damages and improve on its growth prospects. Large companies having sufficient liquidity cushion in the form of cash & liquid investment and/ or unused working capital lines are expected to be better placed compared to their counterparts with limited liquidity cushion and holding large inventories.
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 Textile Manufacturing
Rating Methodology- Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Maharaja Shree Umaid Mills Limited (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. As on March 31, 2020, MSUML has installed capacity of 69,024 spindles and 1,440 rotors (17,050 metric tonnes per year [MTPY]) for yarn division and 204 looms (3,48,90,000 meters per year [MPY]) for fabric division. The company has shut down its processing unit for suitings and shirtings division 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, 2020 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 solar plant of 5.15 MW as on March 31, 2020 at Pali, Rajasthan which is being utilized for captive consumption.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	483.05	399.07
PBILDT	44.49	39.31
PAT	-4.68	-7.65
Overall gearing (times)	0.69	0.46
Interest coverage (times)	1.22	1.22

A: Audited
As per provisional results for H1FY21, the company has reported revenue from operations of Rs.81.10 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer **Annexure-2**

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

Complexity level of various instruments rated for this company: **Annexure 4**

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	-	-	Mar-2025	11.91	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A4
Fund-based - LT/ ST-Cash Credit	-	-	-	73.00	CARE BB; Stable / CARE A4
Non-fund-based - LT-Forward contract/derivative limit	-	-	-	2.60	CARE BB; Stable
Non-fund-based - ST-Forward Contract	-	-	-	1.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	11.91	CARE BB; Stable	1)CARE BB; Stable (24-Sep-20)	1)CARE BB; Stable (30-Sep-19)	1)CARE BB; Positive (04-Oct-18)	1)CARE BB; Stable (24-Nov-17)
2.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	1)Withdrawn (24-Sep-20)	1)CARE A4 (30-Sep-19)	1)CARE A4 (04-Oct-18)	1)CARE A4 (24-Nov-17)
3.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A4	1)CARE A4 (24-Sep-20)	1)CARE A4 (30-Sep-19)	1)CARE A4 (04-Oct-18)	1)CARE A4 (24-Nov-17)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	73.00	CARE BB; Stable / CARE A4	1)CARE BB; Stable / CARE A4 (24-Sep-20)	1)CARE BB; Stable / CARE A4 (30-Sep-19)	1)CARE BB; Positive / CARE A4 (04-Oct-18)	1)CARE BB; Stable / CARE A4 (24-Nov-17)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1)Withdrawn (24-Nov-17)
6.	Non-fund-based - LT-Forward contract/derivative limit	LT	2.60	CARE BB; Stable	-	-	-	-
7.	Non-fund-based - ST-Forward Contract	ST	1.00	CARE A4	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Financial covenant
• Maintain Current Ratio of more than 1.33 times as estimated/projected
• Maintain Debt to Equity ratio (TOL/TNW) of maximum 3:1 as estimated/projected
• Total external debt / EBITDA: Not to exceed 4 times (ICD to be excluded)
• Debt service coverage ratio not to fall below: 1 times for FY20 and 1.25 times from FY21 onwards where interest on ICD will be excluded for DSCR calculation
• The borrower shall maintain a minimum fixed assets coverage ratio of 1.33 times during the entire tenure of the facility cover

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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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