



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

MI Industries India Private Limited

March 30, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
Bank Facilities- Long Term	65.08	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Bank Facilities- Short Term	4.27	IVR A3 (IVR A Three)
Total	69.35	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of MI Industries India Private Limited (MIILP) draws comfort from extensive experience of its promoters in the apparel industry, reputed clientele albeit customer concentration and entitlement for subsidy from the state government. The ratings also positively considers improvement in its scale of operations in FY19 and in 9MFY20. However, the rating strengths are partially offset by susceptibility of profit margin to fluctuations in input prices, working capital intensive nature of operations and average capital structure. The rating also consider its exposure to regulatory risk, presence in competitive textile industry and availability of cheaper substitutes.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income, profitability and consequent increase in debt protection metrics and cash accrual.
- Improvement in capital structure and improvement in operating cycle

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin, any stretch in the working capital cycle driven by pile-up of inventory or stretched receivables or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.



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- Deterioration in the capital structure and/or withdrawal of subordinated unsecured loans

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the apparel industry

The promoter, Mr. Arvind Modi is associated with the business since inception and has around two decades in the garment industry. He looks after the overall business operations of the company. He is ably supported by his son, Mr. Aadit and Mr. Akshat Modi, who has an experience of five year in garment manufacturing industry. The company is benefited by experienced management, who has helped the company to maintain healthy and long-standing relationship with the customers.

Reputed customer profile albeit concentrated and successful track record

MIPL was incorporated in 2009 and commenced operations in 2015, consequently it has five years of experience in Textile processing industry. MIPL customer profile consists of well-known clients such as Orient Craft Limited, Aditya Birla Fashion And Retail Limited, Marks & Spencer's, American Eagle etc.

Growth in scale of Operations in FY19 and 9MFY20

The scale of operations of the company though remained modest, registered a sustained growth in the total operating income at a CAGR of ~6% during FY17-FY19 with a y-o-y growth of ~15% in FY19 mainly driven by increase in order execution with addition of new clients in the customer profile. With improved scale of operations, absolute EBITDA and EBIDTA margin has also improved during the aforesaid period and the EBITDA margin stood satisfactory at 14.97% in FY19 (13.65% in FY18). However, though the PAT margin moderated due to deferred tax adjustments, adjusted PAT (before adjusting deferred tax) margin witnessed steady improvement from 1.73% in FY18 to 2.36% in FY19. Further, the gross cash accruals also improved from Rs.8.43 crore in FY18 to Rs.9.64 crore in FY19. In 9MFY20, the company has achieved a total operating income of Rs.92.36 crore.



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Key Rating Weaknesses

Susceptibility of profit margin to fluctuations in input prices

The major raw materials are grey fabrics, colour, chemical and fuel. Acquiring and storing of adequate amount of inventory plays a very important role in Textile industry. Cotton, wool, silk, jute fabric are agro based, their prices are volatile in nature which may lead to fluctuation in revenue and profitability.

Intense competition prevalent in the textile industry and availability of cheaper substitutes

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry and faces stiff competition from both organised and unorganised players. Also, the company faces risk from its substitutes such as polyester, cotton and increasing imports leads to competition in both domestic and overseas market.

Exposure to regulatory risk

MIPL, like other players in the textile industry, remains exposed to changes in the legal and regulatory environment such as revision of tax rates, changes in import duty, etc.

Average capital structure

Total indebtedness of the company as reflected by TOL/TNW also remained high at 3.95x as on March 31, 2019. With improvement in absolute EBITDA and gross cash accruals in FY19, Interest coverage ratio and Total debt/GCA though improved from 2.70x and 10.44x respectively in FY18 to 2.42x and 8.12x respectively in FY19 continued to remain on the higher side. To arrive at the net worth, Infomerics has considered Rs.26.84 crore of unsecured loans (outstanding as on March 31, 2019) from the promoters/ directors as quasi equity as the same is subordinated to the bank facilities and that will not be withdrawn the adjusted gearing ratio of the company stood at 1.52x as on March 31, 2019.

Working capital intensive nature of operations

Operations of the company are working capital intensive, marked by its high operating cycle of 103 days for FY19 as compared to 114 days for FY18. The inventory days are high at around 117 days for FY19, primarily due to high raw material holding period. The operating cycle hovered



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around a 3 to 4 month during the last three fiscals. However, the company has utilised ~68% of working capital borrowings in 12 months ended January, 2020 which imparts some comfort.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate marked by its expected gross cash accruals in the range of Rs.16-19.5 crore as compared to debt obligations in the range of Rs.11.8-12.5 crore during FY20-22. However, the liquidity is constrained due to its working capital intensive nature of its operations. Further, its bank limits remained moderately utilized to the extent of ~70% during the past 12 months ended January, 2020.

About the Company

MI Industries (India) Private Limited (MI IPL) was incorporated on 1st April, 2009 and commenced processing of grey cloth from 26th March 2015 onwards in Textile Processing Plant at Jamunaka, Distt. Aligarh, Uttar Pradesh where company carries out dyeing and printing on the grey fabric along with other ancillary processes such as singeing, de-sising, mercerising, bleaching and washing with current capacity of 75000 meters per day of fabrics. The company has latest machinery to deliver fabrics.

The company is being run by Mr. Arvind Kumar Modi who is assisted by Mrs. Poonam Modi, Mr. Aadit Modi, Mr. Ashutosh Shukla who has an extensive experience in the textile processing industry through his other group companies.



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Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-18	31-03-19
	Audited	Audited
Total Operating Income	99.70	114.91
EBITDA	13.61	17.20
Reported PAT	1.10	1.06
Total Debt	88.01	78.24
Tangible Net worth	21.89	24.60
EBITDA Margin (%)	13.65	14.97
Reported PAT Margin (%)	1.10	0.92
Overall Gearing Ratio (x)	1.91	1.52

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by ICRA vide press release dated Dec 07, 2017 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	18.00*	IVR BBB-/Stable	-	-	-
2.	Term Loan	Long Term	47.08	IVR BBB-/Stable	-	-	-
3.	Bank Guarantee	Short Term	1.77	IVR A3	-	-	-
4.	BULC	Short Term	2.50	IVR A3	-	-	-

* includes sub limit of ODBD of 5 crore and PC/PCFC/FDB/FBE/BRD of Rs.4 crore

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan I	-	-	December, 2025	45.75	IVR BBB-/Stable
Long Term Bank Facilities – Term Loan II			September, 2022	1.33	IVR BBB-/Stable
Long Term Bank Facilities – Cash Credit			-	18.00*	IVR BBB-/Stable
Short Term Bank Facilities-Bank Guarantee	-	-	-	1.77	IVR A3
Short Term Bank Facilities-BULC			-	2.50	IVR A3

** includes sub limit of ODBD of 5 crore and PC/PCFC/FDB/FBE/BRD of Rs.4 crore*