



## Press Release

### Murugavilas Textiles (MVT)

August 11, 2020

Sl. No.	Instrument/Facility	Amount (INR. Crore)	Rating	Rating Action
1.	Long Term Fund Based Facility – OCC	5.00	IVR B+/Stable Outlook (IVR Single B plus with Stable Outlook)	Assigned
2.	Long Term Fund Based Facility – Term Loan	7.90	IVR B+/Stable Outlook (IVR Single B plus with Stable Outlook)	Assigned
	<b>Total</b>	<b>12.90</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating derives strength from experienced proprietor, proximity to raw material, improvement in scale of operation, healthy profitability margins. However, the rating strengths are partially offset by weak debt protection metrics, working capital intensive operation, volatility in raw material prices and competitive risk.

#### Key Rating Sensitivities:

##### Upward rating factor(s):

- Substantial improvement in revenue and/or profitability leading to sustained improvement in debt protection metrics.

##### Downward rating factor(s)

- Any decline in revenue and/or profitability leading to sustained decline in debt protection metrics.

#### Key Rating Drivers with detailed description

#### Key Rating Strengths

##### Experienced proprietor:

The firm is managed by Mr. Viswanathan (Proprietor) and Mr. Kavin (Son of Mr. Viswanathan), who have a combine experience of around three decades in the textile and other industries.



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### **Proximity to raw material:**

The major raw material consumed is cotton yarn. The firm has easy access for raw materials, as the manufacturing plant is located in Namakkal (Tamil Nadu), which is one of the famous cotton yarn weaving and cotton yarn processing area. The supplier for the cotton yarn (compact and combed) and micro model are also available in vicinity. Favourable location of the plant is enabling the firm to save its logistic cost and time consumed in procuring these raw materials.

### **Improvement in scale of operation:**

The firm have achieved the breakeven and is entering into growth trajectory phase. Though the scale of operation of the firm remained modest, the total operating income is being recorded at INR16.00 Crore as compared to INR13.10 Crore in FY19 and INR5.90 Crore in FY18, the CAGR of ~ 64% (FY18-FY20) is mainly driven by increase in order execution with its shift from job work to own manufacturing. The firm have recorded positive PAT for the first time since its inception, in FY20 (Provisional) of INR0.19 Crore as compared to net losses in the previous years. Infomerics expects further improvement in revenue in FY21.

### **Healthy profitability margins:**

The profitability margins of the firm remain healthy, albeit declining. EBIDTA margin has declined from 30.05% in FY19 to 24.55% in FY20 due to shift of business model from job work to own manufacturing. However, the PAT margin have improved from negative 0.56% in FY19 to positive 1.19% in FY20 with its reduction in interest cost and increase in economies of scale.

### **Key Rating Weaknesses**

#### **Weak debt protection metrics, albeit improving:**

MVT long term debt to EBITDA have seen improvement in FY20 at 2.57x (FY19: 3.85x and FY18: 8.41). The overall gearing of the firm has also improved in FY20 at 3.76x as compared to 22.62x in FY19 on account of reduction in debt coupled with improvement in net worth, where the tangible net worth of the firm was recorded with INR3.70 Crore in FY20 as compared to INR0.70 Crore in FY19 due to infusion of capital and retention of profit. Apparently, total debt to GCA has also improved in FY20 at 4.23x as compared to 5.80x in FY19 and 12.45x in FY18. The interest coverage ratio is comfortable at 2.61x in FY20 (FY19: 2.54x and FY: 1.70x)



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increase in EBITDA and reduction in interest cost. TOL/TNW stands moderate in FY20 at 4.67x (FY19: 25.54) with the reduction in liability of term loan and unsecured loan.

### **Working capital intensive operation:**

Operations of the firm are working capital intensive marked by an operating cycle of 65-92 days. The inventory days are in the range of 73-92 days. The average debtor days are comfortable at around 10-25 days and the average creditor days are around 20-70 days. The average cash credit utilization of the company remained at ~ 60% during the past 12 months ending June 30, 2020.

### **Raw material price volatility:**

The cotton processing industry's profitability margins are highly correlated with fluctuations in raw cotton prices. The major raw materials for MVT are fine cotton yarn (Viscose), compact yarn, combed yarn and micro modal which are being procured from the domestic suppliers of Tamil Nadu. The weaving industry is fragmented and there is significant competition among the players in this industry, as a result their bargaining power is moderate and profitability margins are vulnerable to the volatility in the prices of yarn procured from domestic and overseas players for manufacturing cotton grey fabrics.

### **Competitive Risk:**

The cotton industry has large number of organized and unorganized players leading to high competition in the industry. The main source of raw material production varies depending upon the favourable and unfavourable climatic conditions.

### **Analytical Approach:**

Standalone

### **Applicable Criteria:**

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

**Liquidity: Stretched**



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The liquidity position of the firm remains stretched marked by its tightly matched repayment obligation. The current ratio remains at 0.77x in FY20 (Provisional). The cash conversion cycle also remains elongated.

### About the Company:

Murugavilas Textiles (MVT), was incorporated on June 2015 as a proprietorship concern and commenced the commercial production from 2016 onwards. Mr Viswanathan is the proprietor of MVT and Mr. Kavin (Son of the proprietor) is the unit incharge of the same. The plant of MVT is located in the state of Tamil Nadu (Namakkal). The firm produces cotton grey fabrics like plain, satin, twill, drill, matt and dobby designs.

### Financials:

For the year ended/ As On*	(INR. Crore)	
	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	13.10	16.00
EBITDA	3.93	3.92
PAT	-0.07	0.19
Total Debt	15.50	13.98
Tangible Net-worth	0.70	3.70
EBITDA Margin (%)	30.05	24.55
PAT Margin (%)	-0.56	1.19
Overall Gearing Ratio (x)	22.72	3.76

\* Classification as per Infomerics standards

**Status of non-cooperation with previous CRA:** Brickwork Ratings has moved the rating of Murugavilas Textiles into the Issuer Non-Cooperating category as per the Press Release dated May 27, 2020.

**Any other information:** N.A.

**Rating History for last three years:**



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Sl. No	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Fund Based Facility – OCC	Long Term	5.00	IVR B+/Stable	--	--	--
2.	Long Term Fund Based Facility – Term Loan	Long Term	7.90	IVR B+/Stable	--	--	--
	<b>Total</b>		<b>12.90</b>				

**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](http://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. 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



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<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Fund Based Facility – OCC	NA	NA	NA	5.00	IVR B+/Stable
Long Term Fund Based Facility – Term Loan	NA	NA	Up to August, 2024	7.90	IVR B+/Stable