# MI Industries India Private Limited

## September 27, 2023

**Ratings**

| Sl. No. | Instrument/ Facility | Amount (Rs. Crore) | Previous Ratings | Current Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|---|---|
| 1. | Long Term Bank Facility | 71.02 | IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) | IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) | Reaffirmed | Simple |
| 2. | Short Term Bank Facilities | 1.77 | IVR A3 (IVR A Three) | IVR A3 (IVR A Three) | Reaffirmed | Simple |
| | **Total** | **72.79** | **Rupees Seventy Two Crore and Seventy Nine Lakhs Only** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

Informerics Valuation and Rating Private Limited (IVR) has reaffirmed the rating for long-term rating at IVR BBB- with stable outlook and the short-term rating at IVR A3 for the bank loan facilities of MI Industries India Private Limited (MIIIPL).

The rating continues to draw comfort from its extensive experience of the promoters in the apparel industry, reputed customer profile albeit concentrated and successful track record, improvement in scale of operations, moderate capital structure with satisfactory debt protection metrics. However, these rating strengths are partially offset by elongated operating cycle, presence in a highly fragmented industry, regulatory risk, and compliance with environmental norms.

IVR has principally relied on the audited financial results of MIIIPL's up to 31 March 2022, management certified provisional results for FY2023 and projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company's management.

**Upward Factors**

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.
- Improvement in the capital structure and/or improvement in debt protection metrics.
- Effective working capital management with improvement in operating cycle and liquidity.

**Downward Factors**

- Dip in scale of operation and/or decline in profitability impacting the debt protection metrics.
- Withdrawal of unsecured loan and/or any unplanned capex impacting the capital structure of the company.
- Deterioration in working capital cycle leading to moderation in liquidity profile of the company.

**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 experience around for more than 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 Modi and Mr. Akshat Modi, who has an experience of seven 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:**

MIIPL was incorporated in 2009 and commenced operations in 2015, consequently it has eight years of experience in textile processing industry. MIIPL customer profile consists of well-known clients such as Orient Craft Limited, Tommy Hilfiger, Hollister, Aditya Birla Fashion and Retail Limited, Marks & Spencer's, American Eagle, Aeropostale, etc.

**Improvement in scale of operations:**

The total operating income (TOI) of the company witnessed an y-o-y increase in TOI by ~34% on the back of extensive marketing efforts taken by the company coupled with higher focus on research and development activities to develop new qualities which in turn push the demand of its products among the customers. On the back of improved demand TOI improved from Rs.140.86 crore in FY2022 to Rs. 188.51 crore in FY2023 (Prov.). With the improvement in TOI, EBITDA have also improved from Rs. 17.26 crore in FY2022 to Rs. 23.20 crore in FY2023 (P) mainly on account of increase in total operating income. However, EBIDTA margin stood stagnant in FY2023 (Prov,) at 12.31% (FY2022: 12.25%). Further, PAT margin also improved from 1.36% in FY2022 to 3.45% in FY2023(Prov.). In Q1FY24, the company has achieved a revenue of ~Rs.27 crore.

**Moderate capital structure with satisfactory debt protection metrics:**

The promoters have infused subordinated unsecured loans amounting to Rs.14.75 crore in the business and including the same in the net worth as quasi equity the tangible net worth (including quasi equity) stood at Rs.51.76 crore. The capital structure of the company continues to remain moderate though leverage ratios have improved on the back of accretion of profit to net worth and scheduled repayment of term loans. The debt equity ratio and overall gearing ratio stood at 1.36x and 1.73x respectively as on March 31,2023 (1.88x and 2.41x respectively as on March 31,2022). The debt protection metrics of the company improved from previous fiscal year and remained moderate in FY23 (Prov.). The interest coverage ratio improved and stood at 2.70x as on March 31, 2023 (P) as against 2.05x in FY22. Total debt to GCA also improved to 6.47 years as on March 31,2023 (P) as against 10.26 years as on March 31, 2022.

**Key Rating Weaknesses**

**Elongated operating Cycle:**

Operations of the company are working capital intensive, marked by its elongated operating cycle of 131 days for FY23(P). This is mainly due to high inventory days of around 114 days for FY23 (P) which majorly consist of raw material holding period of 52 days and finished goods inventory of 52 days.

**Presence in a highly fragmented industry:**

The industry is highly fragmented and competitive, with a large number of unorganized players in the market. Such high fragmentation limits the pricing flexibility and bargaining power of the players. Also, the threat from large integrated players in the form of capacity additions limits the growth. The industry is exposed to the risk low entry barriers. The small initial investment and the low complexity of operations have resulted in existence of innumerable entities, much smaller in size, leading to significant fragmentation.

**Regulatory risk and compliance with environmental norms:**

The textile processing units use various chemicals for dyeing and printing process, which generate polluted water and air that needs to be treated before their disposal. Hence, textile processing units require continuous compliance with the stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms may adversely impact MIIIPL's operations.

**Analytical Approach:** For arriving at the ratings, IVR has analysed MIIIPL's credit profile by considering the standalone financial statements of the company.

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for rating outlook

**Liquidity – Adequate**

MIIPL earned gross cash accruals of Rs.13.83 crore as against its repayment obligation of Rs.4.66 crore as on March 31, 2023 (P). The company's fund-based working capital limits for last 12 months ending May 2023 stood at ~66% indicating moderate cushion available in case of adversities. The company has a current ratio of 2.14x as of March 31, 2023(P). Moreover, the company is expected to generate cash accruals in the range of Rs.16.83 crore-Rs.20.65 crore as against its debt servicing obligation of ~Rs.9.01 crore – Rs.11.47 crore FY24-26. The company has adequate cash and cash equivalents amounting to Rs.2.47 crore as on March 31, 2023(P). All these factors reflect adequate liquidity position of the company.

**About the Company**

MI Industries (India) Private Limited (MIIPL) 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-sizing, mercerising, bleaching and washing with current capacity of 195 lakhs meters per annum 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.

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended*/As on | 31-03-2022 | 31-03-2023 |
|---|---|---|
| | Audited | Provisional |
| Total Operating Income | 140.86 | 188.51 |
| EBITDA | 17.26 | 23.20 |
| PAT | 1.94 | 6.58 |
| Total Debt | 103.51 | 89.51 |
| Tangible Net worth | 28.24 | 37.01 |
| EBITDA Margin (%) | 12.25 | 12.31 |

| For the year ended*/As on | 31-03-2022 | 31-03-2023 |
|---|---|---|
| PAT Margin (%) | 1.36 | 3.45 |
| Overall Gearing Ratio (x) | 2.41 | 1.73 |

**Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Instrument/ Facilities | Current Ratings (Year 2023-24) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2022-23 (July 7, 2022) | Date(s) & Rating(s) assigned in 2021-22 (June 22, 2021) | Date(s) & Rating(s) assigned in 2019-20 (March 30, 2020) |
| 1. | Fund Based | Long Term | 71.02 | IVR BBB-/Stable Outlook | IVR BBB-/Stable Outlook | IVR BB+/Stable Outlook | IVR BBB-/Stable Outlook |
| 2. | Non-Fund Based | Short Term | 1.77 | IVR A3 | IVR A3 | IVR A4+ | IVR A3 |

**Name and Contact Details of the Rating Analyst:**

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**About Infomerics:**

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

**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 Facility – Term Loan 1 | - | - | January 2036 | 45.75 | IVR BBB-/Stable Outlook |
| Long Term Bank Facility – Term Loan 2 | | | August 2031 | 1.18 | IVR BBB-/Stable Outlook |
| Long Term Bank Facility – FITL | - | - | February 2026 | 1.09 | IVR BBB-/Stable Outlook |
| Long Term Bank Facility – Cash Credit | - | - | - | 23.00* | IVR BBB-/Stable Outlook |
| Short Term Bank Facility – Bank Guarantee | - | - | - | 1.77 | IVR A3 |

**Sublimit:*
*1. ODBD: Rs.5.00 crore*
*2. PC/PCFC/FDB/FBE/BRD: Rs.12.00 crore*
*3. ILC: Rs.8.80 crore*
*4. BULC: 2.50 crore*

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

**https://www.infomerics.com/admin/prfiles/len-MIIIPL-sep23.pdf**

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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 Complexity Level of Rated Instruments/Facilities.