



Press Release

Mahalakshmi Spintex Private Limited

February 13, 2023

Ratings

| Instrument/ Facility | Amount (Rs. crore) | Rating | Rating Action | Complexity Indicator |
|-------------------------------|---|---|------------------|--|
| Long Term Bank Facilities | 25.77 | IVR BB/ Stable (IVR Double B with Stable Outlook) | Assigned | Simple |
| Short Term Bank Facilities | 4.00 | IVR A4 (IVR A four) | Assigned | Simple |
| Total | 29.77 (INR Twenty-Nine Crore Seventy- Seven Lakh Only) | | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Mahalakshmi Spintex Private Limited factors in experienced promoters with established track record of operations and improvement in Scale of operations in FY22. However, the rating is constrained by thin profitability margins, leveraged capital structure and moderately weak debt coverage indicators, customer concentration risk, exposure to volatility in raw material prices and Intense competition prevailing in the industry.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity
- Improvement in capital structure and debt coverage indicators of the company

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters with established track record in the business:

The promoters of the company have been in the business since 2000. Mr. Raj Kumar Jain, Mr. Dhan Raj Jain and Mrs. Manju Bala are the promoters of the company. They have more than two decades of experience in the industry. Also, it has enabled the company to establish sustained and strong client base locally as well as in export markets.

Improvement in Scale of operations in FY22

The company has reported improvement in financial performance in FY22 as it has reported total operating income of Rs 162.59 crores in FY22 as compared to Rs.86.95 crores in FY21 depicting an increase of around 87%. Also, the profitability of the company has improved as the EBITDA and PAT stood at Rs.5.63 crores and Rs.1.64 crores respectively in FY22 against Rs.5.27 crores and Rs.0.67 crores in FY21. EBITDA margin and PAT margin of the company stood at 3.46% and 1.00% respectively in FY22 as against 6.06% and 0.77% respectively in FY21. The GCA of company stood at Rs.3.64 crores in FY22 against Rs.3.02 crores in FY21. The company has achieved PAT of Rs.1.74 crores on total operating income of Rs.99.66 crores in H1FY23 as against PAT of Rs.0.98 crores on total operating income of Rs.69.25 crores in H1FY22.

Key Rating Weaknesses

Thin profitability margins

The operating profit margin of the company however witnessed decline by 260 bps from 6.06% in FY21 to 3.46% in FY22. This was mainly because the company was earlier operating on a Korean manufacturing line which used to fetch high margins, however there was high demand of products manufactured on Chinese manufacturing line. So, the company also installed the same in its manufacturing unit. Although the demand of the end product is high in market but



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the margin from the same product produced by Chinese manufacturing line is on the lower side. However, to keep up with the demand in the market, the company focused more on the Chinese manufacturing line products and thus while the turnover increased, the margins declined in FY22.

Leveraged capital structure and moderately weak debt coverage indicators

The company's capital structure is leveraged with overall gearing of 1.95 times as on March 31, 2022, which deteriorated from 1.70 times as on March 31, 2021, due to increase in debt. TOL/TNW also moderated from 2.76 times as on March 31, 2021, to 2.91 times as on March 31, 2022. Further, debt protection metrics of the entity are moderate, as reflected in interest coverage of 3.34 times in FY22 as compared to 2.53 times in FY21. However, Total debt to GCA stood high at 8.67 times in fiscal 2022 as compared to 8.07 times in FY21.

Customer Concentration risk

The company has customer concentration risk as top 5 customers of company accounted for around 48% of its total revenue in FY22. Any hinderance in receiving orders from these clients can impact the operations and overall profitability of the company adversely.

Exposure to volatility in raw material prices

Raw material prices account for around 84% of the total cost of sales. The raw materials include polyester waste, which are derivatives of crude oil; hence, profitability is exposed to fluctuations in crude oil prices, which the group is, sometimes, unable to fully pass on to the customers resulting in fluctuating margins.

Intense competition prevailing in the industry.

The company faces intense competition because of low entry barriers and limited differentiation in end products which ultimately results in low pricing power. This can also lead to negative impact on profitability of the entities involved in the industry.

Analytical Approach: Standalone

Applicable Criteria:



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[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate on account of expectation of sufficient cushion in cash accruals vis a vis debt repayment obligation. The unencumbered cash & cash equivalents of the company stood at Rs.2.21 crores as on March 31, 2022. The working capital limit utilization of company was ~96% which depicts higher utilization. Also, the company's current ratio stands at 1.40x as on 31st March 2022. The Operating cycle of the company improved from 111 days in FY21 to 65 days in FY22 on account of decrease in inventory period and collection period with an increase in scale of operations.

About the Company

Mahalakshmi Spintex Pvt Ltd started its operations in 2000 and is located in Baddi (H.P). The company is mainly into manufacturing of high end Recycled Polyester fibre ranging from 1.5 to 15 Deniers both in Silicon and non-Silicon grade in various colours and different cut length as per client's requirements. The company supplies Polyester fibre to various non-woven carpet manufacturers making carpets for Auto Sector OEM like Toyota, Suzuki Maruti, HYUNDAI, TELCO, and HONDA and also to Textile manufacturing companies. Company has fully automatic manufacturing facilities for producing high-grade fibre and testing laboratories for quality control with a capacity of 28000 MTPA.

Financials (Standalone)

(Rs. crore)

| For the year ended* / As On | 31-03-2021 | 31-03-2022 |
|------------------------------------|-------------------|-------------------|
| | Audited | Audited |
| Total Operating Income | 86.95 | 162.59 |
| EBITDA | 5.27 | 5.63 |
| PAT | 0.67 | 1.64 |
| Total Debt | 24.37 | 31.53 |



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|-----------------------------|-------|-------|
| Tangible Net worth | 14.30 | 16.14 |
| EBITDA Margin (%) | 6.06 | 3.46 |
| PAT Margin (%) | 0.77 | 1.00 |
| Overall Gearing Ratio (x) | 1.70 | 1.95 |
| Interest Coverage Ratio (x) | 2.53 | 3.34 |

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years:

| Sl. No. | Name of Instrument / Facilities | Current Rating (Year 2022-23) | | | Rating History for the past 3 years | | |
|---------|---------------------------------|-------------------------------|--------------------------------|----------------|---|---|---|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-22 | Date(s) & Rating(s) assigned in 2020-21 | Date(s) & Rating(s) assigned in 2019-20 |
| 1. | Term Loans | Long Term | 7.77 | IVR BB/ Stable | - | - | - |
| 2. | Cash Credit | Long Term | 18.00 | IVR BB/ Stable | - | - | - |
| 3. | ILC/FLC | Short Term | 4.00 | IVR A4 | - | - | - |

Name and Contact Details of the Rating Analyst:

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|--|---|
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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).



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Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/IRR | Maturity Date | Size of Facility (INR Crore) | Rating Assigned/ Outlook |
|------------------|------------------|-----------------|---------------|------------------------------|--------------------------|
| Term Loan -I | - | - | FY26 | 0.92 | IVR BB/ Stable |
| Term Loan -II | - | - | FY26 | 1.33 | IVR BB/ Stable |
| Term Loan -III | - | - | FY28 | 2.52 | IVR BB/ Stable |
| Term Loan -IV | - | - | FY26 | 0.48 | IVR BB/ Stable |
| Term Loan -GECL | - | - | FY31 | 2.52 | IVR BB/ Stable |



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|-------------|---|---|---|-------|----------------|
| Cash Credit | - | - | - | 18.00 | IVR BB/ Stable |
| ILC/FLC | - | - | - | 4.00 | IVR A4 |

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

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-Mahalakshmi-feb23.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 www.infomerics.com.