



Press Release

MI Industries India Private Limited

June 22, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Bank Facility- Long Term	68.08	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Downgraded
2.	Bank Facility- Short Term	1.77	IVR A4+ (IVR A Four Plus)	Downgraded
	Total	69.85 (Sixty nine crore and eighty five lakhs Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating to the above-mentioned bank facilities of MI Industries India Private Limited (MI IPL) is on account of Y-o-Y decline in the Company's operational performance due to Covid-19 led pandemic, slowdown of demand is expected in near future and leveraged capital structure with stressed debt protection metrics. The revenue declined to INR 83.38 Crore in FY21(Prov) as against INR 126.48 Crore in FY20. The profit margin also declined to (3.58)% in FY21(Prov) as against 1.76% in FY20. The operating cycle remained stretched on account of increase in inventory holding and collection period.

The rating assigned to the bank facilities of MI Industries India Private Limited (MI IPL) continues to draw comfort from extensive experience of its promoters in the apparel industry, reputed clientele albeit customer concentration and sustainable development. The ratings also positively consider improvement in its scale of operations in FY20. However, the rating strengths are partially offset by susceptibility of profit margin to fluctuations in input prices, working capital intensive nature of operations and leveraged capital structure with stressed debt protection metrics. The rating also considers its exposure to regulatory risk, presence in competitive textile industry and availability of cheaper substitutes.

Key Rating Sensitivities

Upward Rating Factors

- Substantial and sustained growth in operating income, profitability and consequent increase in debt protection metrics and cash accrual.



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- Improvement in capital structure and improvement in operating cycle

Downward Rating Factors

- Moderation in operating income and/or cash accrual or deterioration in operating margin, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Withdrawal of unsecured loan from promoter
- Deterioration in the capital structure
- Elongation in its gross operating cycle with increased reliance on working capital borrowings

Detailed Description of Key Rating Drivers

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 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 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 seven years of experience in Textile processing industry. MIPL 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.

Sustainable Development

The company lays emphasis on achieving financial profitability along with achieving ecological balance by use of non-carbon fuel for conservation of energy (using rice husk to generate heat). MIPL has also in process of construction of Effluent Treatment Plant to reduce the water wastage and release safe water in the environment.



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Growth in scale of Operations in FY20

The scale of operations of the company though remained modest, registered a sustained growth in the total operating income at a CAGR of ~8.37% during FY18-FY20 with a y-o-y growth of ~10% in FY20. The growth was mainly driven by increase in order execution with addition of new clients in the customer profile. With improved scale of operations, absolute EBITDA and EBITDA margin has also improved during the aforesaid period and the EBITDA margin stood satisfactory at 14.24% in FY20 (14.78% in FY19). However, though the PAT margin moderated due to deferred tax adjustments, adjusted PAT (before adjusting deferred tax) margin witnessed steady improvement from 2.36% in FY19 to 2.70% in FY20. Further, the gross cash accruals also improved from Rs.9.64 crore in FY19 to 10.30 in FY20. However the total operating income declined to Rs 83.38 crore for FY21(Prov) as the factories were closed during covid-19 and EBITDA stood at Rs 9.75 crore as on March 31, 2021(Prov)

Key Rating Weaknesses

Susceptibility 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.

Leveraged capital structure with stressed debt protection metrics

The capital structure of the entity remained leveraged as on the past two account closing dates due to its modest net worth base and higher dependence on working capital borrowings to fund its working capital requirements. The overall gearing ratio stood high at 2.44x as on March 31, 2021(Prov) (2.03x as on March 31, 2020). Further, total indebtedness as reflected by TOL/TNW also remained moderate at 2.95x as on March 31, 2021(Prov) (2.72x as on March 31, 2020). Further, debt protection metrics of the entity remained stressed due to its low cash accruals, interest coverage ratio remained thin at 1.66x in FY21(Prov) and Total debt to GCA stood high at 24.31 years in FY21(Prov).



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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 cheaper availability of the raw materials. For the competitive landscape, the company faces stiff 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.

Working capital intensive nature of operations

Operations of the company are working capital intensive, marked by its high operating cycle of 99 days for FY20. The inventory days are high at around 122 days for FY20, primarily due to high raw material holding period. The finished goods inventory of the company is around 45 days. Majority of the company's domestic clients are garment exporters. The colour matching and quality of printing to be maintained for the dyeing and printing of fabrics are stringent and have to meet the quality parameters set by the ultimate clients. Before processing the fabric, samples have to be approved by the clients which increases the processing time. It is evident from the fact that the average collection period is 48 days in FY20. MIPL procures raw fabric mainly from suppliers located in Nagpur and South India on credit of around 90 days. However, the company enjoys a credit period of about 60-90 days from its suppliers. The operating cycle hovered around a 3 to 4 month during the last three fiscals. The operating cycle stood elongated at 172 days with inventory period of 206 days and credit period received of 110 days in FY21(Prov) The company has utilised ~93% of working capital in 12 months ended March, 2021.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity: Adequate

The liquidity position of the company is expected to adequate marked by its expected gross cash accruals in the range of Rs.10.00-12.00 crore as compared to debt obligations in the range of Rs.7 crore in FY23. The company has free cash balance of Rs 0.06 crore as on March 31, 2021. 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 ~93% during the past 12 months ended March, 2021. The company has availed covid moratorium period along with GECL facility and had applied for restructuring of debt, the sanction for the same was received on June 14, 2021.

About the Company

MI Industries (India) Private Limited (MIPL) 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.

Financials: Standalone

For the year ended* / As On	(Rs. Crore)	
	31-03-2020 (Audited)	31-03-2021 (Prov)
Total Operating Income	126.48	83.38
EBITDA	18.02	9.75
PAT	2.24	-3.00
Total Debt	86.89	96.86
Tangible Net worth**	42.75	39.75
EBITDA Margin (%)	14.24	11.70
PAT Margin (%)	1.76	-3.58
Overall Gearing Ratio (x)	2.03	2.44

*as per Infomerics' standards

**Unsecured loan from promoter of Rs 14.75 crore is treated as Quasi Equity



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Status of non-cooperation with previous CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	50.08	IVR BB+/Stable	-	IVR BBB-/Stable (Dated March 30,2020)	-
2.	Cash Credit	Long Term	18.00*	IVR BB+/Stable	-	IVR BBB-/Stable (Dated March 30,2020)	
3.	Bank Guarantee	Short Term	1.77	IVR A4+	-	IVR A3 (Date March 30,2020)	

* 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 based on complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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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	-	-	2025	50.08	IVR BB+/ Stable Outlook
Long Term Bank Facilities–Cash Credit	-	-	-	18.00*	IVR BB+/ Stable Outlook
Short Term Bank Facility-Bank Guarantee	-	-	-	1.77	IVR A4+

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

Annexure 2: Lender's Details

<https://www.infomerics.com/admin/prfiles/lender-mi.pdf>