Mohan Spintex India Limited

February 16, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	759.73 (Reduced from 845.17)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	53.50	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The re-affirmation in the ratings assigned to the bank facilities of Mohan Spintex India Limited (MSIL) continue to derive strength from experienced promoters with established track record, favourable location with semi-integrated nature of operations, and diversified geographical presence. The ratings also take into consideration the improvement in operational and financial performance during FY22 (FY refers to period from April 01 to March 31) and stable performance during H1FY23 (UA). The ratings are, however, tempered by leveraged capital structure, elongated operating cycle resulting in high dependence on working capital lines, volatility in cotton and yarn prices and inherent cyclicality associated with the textile industry.

Rating sensitivities: Factors likely to lead to rating actions:

Positive factors

- ✓ Ability of the company to improve the scale of operations above Rs. 1200 crore while maintain the PBILDT margins at or above 15%
- ✓ Overall gearing falling below 1.2x, on a sustained basis.
- ✓ Total debt to PBILDT improving to <3x in the future years

Negative factors

- × Any large debt funded capex leading to moderation in capital structure resulting in deterioration in the gearing ratio beyond 2x.
- × Decline in TOI by 30% y-o-y and PBILDT margins below 10%, going forward.

Analytical approach: Consolidated, CARE in its analysis has considered consolidated financials of MSIL which include MSIL and its four wholly owned subsidiaries.

Name of the Entity	Subsidiary /Associate/JV	% Shareholding by MSIL
Mohan Mercantile India Private Limited	Subsidiary	100%
Mohan Dwellings Private Limited	Subsidiary	100%
Mohan Renewable Energy India Private Limited	Subsidiary	100%
Mohan International Inc.	Subsidiary	100%

MSIL is the major company and it standalone contributes around ~99% to the consolidated revenue

Key rating strengths

Experienced promoters with established track record

Mohan Spintex India Limited was promoted by Mr. V. Mohan Rao, who has four decades of experience. Mr. V. Sudhakar Chowdary, son of Mr. V. Mohan Rao is the Managing Director of the MSIL. He looks after the operations of MSIL. The company also derives strength from other directors who have vast experience in textile industry.

Favourable location with semi-integrated nature of operations

The company facilities are located in Krishna District of Andhra Pradesh. MSIL is the only manufacturing company in the group and all the units (Unit-I, Unit-II and Unit-III) of MSIL, are close to Guntur, one of the major cotton growing areas in Andhra Pradesh. Furthermore, the plant is also in close proximity to Khammam & Warangal, prominent cotton growing belts in Telangana region providing easy off take. MSIL procures cotton from Guntur, Adilabad, Warangal, Maharashtra, etc. The company has an in-house spinning division which provides certain level of backward integration to its operations as ~40% of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

yarn and 70% of greige fabric currently being produced is used towards captive consumption. The in-house division has helped the company to maintain continuous supply of quality yarn to its weaving facilities.

Diversified geographical presence with hedged forex exposure

MSIL has diversified geographical presence with products being exported to the markets of China, USA, Isreal, Australia, France etc. The export income contributed around 17.90% (PY: 20.85%) to the total sales during FY22. MSIL enjoys a well established network of own sales office, agents and distributors in domestic market attributable to group's long standing presence in textile business. MSIL mitigates its forex fluctuations by entering into forward contracts. The wholly owned subsidiary Mohan International Inc., U.S.A was formed to act as a branch of MSIL and it operates as a marketing office for the export orders from the USA.

Improved Operational and financial performance during FY22

The operational performance has improved with increase in production in all its product segment i.e. yarn, Fabric and Madeups. The increase in production was backed by healthy demand from the export and domestic market. The total operating income of the company has demonstrated a healthy growth of 58% at Rs 1072.81 crore from Rs.679.52 crore during FY21 on account of increase in volumes and better realization in yarn and fabric product. The PBILDT margins of the company improved by 138 bps during FY22 due to higher realization. With the increase in PBILDT, the PAT margin also improved and stood satisfactory at 4.22% in FY22 compared to 0.55% in FY21. During 10MFY23, the company has achieved a turnover of Rs.782 crore (PY: Rs. 767.04 crore – 9MFY22) contributing about 71% of the projected revenue.

Liquidity analysis- Adequate

Liquidity is adequate characterized by adequate in accruals generate of around Rs 100 crore vis-à-vis repayment obligations of 94 crore in FY23. The working capital utilization although remains high at around ~93% during the past 12 months ending December 31, 2022, liquidity is supported by above unity current ratio of 1.43x and positive cash flow from operations at Rs 103.76 crore as on March 31, 2022. Further, the company has an o/s subsidy (interest and power) from AP government of Rs ~180 crore as on March 31, 2022. As on December 2022, the company received a subsidy of Rs 6 crore, and is expecting to receive some additional subsidy before March 31, 2023 which would be utilized to prepay the term debt.

Key rating weaknesses

Leveraged capital structure, high short term debt repayment obligation.

The debt profile of the company primarily comprised of term loans and working capital borrowings. The company has availed additional term loan of Rs 40 crore for setting up of solar plant. The overall gearing of the company remains leveraged at 1.95 times as on March 31st, 2022 though improved from 2.15 times as on March 31, 2021 mainly on account of increase in net worth. Company has a scheduled repayment of close to Rs 100 crore in FY24.

Total debt to GCA of the company though improved, stood moderate at 8.22 times during FY22 (19.31 times during FY21) on account of significant jump in the GCA levels during FY22. PBILDT interest coverage ratio stood moderate at 2.44x during FY22 (1.63 times during FY21).

Inherent volatility associated with raw material prices and its impact on profitability

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. The cotton being the major raw material of spinning mills, movement in cotton prices without parallel movement in yarn prices impact the profitability of the spinning mills. The cotton textile industry is inherently prone to the volatility in cotton and yarn prices.

Intense competition prevalent in the cotton industry

MSIL is exposed to intense competition prevalent in the highly fragmented cotton industry and faces stiff competition from both organised and unorganised players. Organized sector consisting of large-scale spinning units and composite mills is responsible for nearly 75% of installed capacity of the yarn production and unorganized sector consisting of small-scale spinning units account for rest of the capacity. This leads to highly fragmented industry structure having a high level of competition and intense pricing pressures resulting in lower margins

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Mohan Spintex India Limited (MSIL) was incorporated as public limited company in May 2005 and is engaged in the business of cotton spinning & weaving. MSIL initially started operations with an installed capacity of 14,400 spindles at its manufacturing unit located in Vattigudipadu village of Krishna District in Andhra Pradesh. This was later expanded to 30,000 spindles in 2008. The entire facility was later converted to compact spinning to cater to the premium segments. The company started its second manufacturing facility(Unit 2) in Remalle Village, Bapulapadumandal of Krishna district with 44,064 spindles, 1,920 two-for-one (TFO) Twister capacity, 4,576 Rotors in the year 2010–11 and Unit-2 commenced commercial operations in March 2011. In 2012, the company undertook further expansion of its capacities and forward integration into Weaving segment in the FY14 by establishing another unit (Unit 3) in Remalle village of Krishna district in two phases. The 1st phase of Unit-3 with 38,304 spindles and 90 Air jet looms with commercial operations commencing in April 2015. The second phase of Unit-3 comprising of 9,120 spindles, 1,696 rotors, 2,880 TFOs and 66 Air jet looms with commercial operations commencing in October 2016. Further, MSIL completed the envisaged capex at Mallavalli unit (Unit 4) during March 2020, enhancing the weaving capacity to 90,000 mts/day (Earlier: 50,000 mts/day), processing by 1 lakh mts/day (New facility) and Cut, Make and Trim(CMT) to 4 lakh sets per month (Earlier: 30,000 set per month).

Brief Financials (₹ crore)-Consolidated	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	679.46	1072.81	476.44
PBILDT	116.27	198.36	67.10
PAT	3.76	45.30	27.87
Overall gearing (times)	2.15	1.95	1.53
Interest coverage (times)	1.63	2.44	3.09

A: Audited, UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	200.00	CARE BBB-; Stable
Fund-based - LT-PC/Bill Discounting		-	-	-	80.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	30/06/2030	479.73	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.10	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	44.90	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	3.50	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assignet in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	479.73	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Mar-22) 2)CARE BBB- (CW with Developing Implications) (01-Apr-21)	1)CARE BBB- (CW with Developing Implications) (24-Feb-21) 2)CARE BBB- (CW with Developing Implications) (02-Nov-20)	1)CARE BBB; Stable (27-Feb-20)
2	Fund-based - LT-Cash Credit	LT	200.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Mar-22) 2)CARE BBB- (CW with Developing	1)CARE BBB- (CW with Developing Implications) (24-Feb-21) 2)CARE	1)CARE BBB; Stable (27-Feb-20)

						Implications) (01-Apr-21)	BBB- (CW with Developing Implications) (02-Nov-20)	
3	Non-fund-based - ST-BG/LC	ST	5.10	CARE A3	-	1)CARE A3 (07-Mar-22) 2)CARE A3 (CW with Developing Implications) (01-Apr-21)	1)CARE A3 (CW with Developing Implications) (24-Feb-21) 2)CARE A3 (CW with Developing Implications) (02-Nov-20)	1)CARE A3+ (27-Feb-20)
4	Non-fund-based - ST-BG/LC	ST	44.90	CARE A3	-	1)CARE A3 (07-Mar-22) 2)CARE A3 (CW with Developing Implications) (01-Apr-21)	1)CARE A3 (CW with Developing Implications) (24-Feb-21) 2)CARE A3 (CW with Developing Implications) (02-Nov-20)	1)CARE A3+ (27-Feb-20)
5	Non-fund-based - ST-Forward Contract	ST	3.50	CARE A3	-	1)CARE A3 (07-Mar-22) 2)CARE A3 (CW with Developing Implications) (01-Apr-21)	1)CARE A3 (CW with Developing Implications) (24-Feb-21) 2)CARE A3 (CW with Developing Implications) (02-Nov-20)	1)CARE A3+ (27-Feb-20)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (27-Feb-20)
7	Fund-based - LT-PC/Bill Discounting	LT	80.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Mar-22) 2)CARE BBB- (CW with Developing Implications) (01-Apr-21)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-PC/Bill Discounting	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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