

Mohini Fibers Limited

February 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	21.25	CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Assigned
Total Facilities	21.25 (Rs. Twenty One crore and Twenty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Mohini Fibers Limited (MFL) are constrained by its leveraged capital structure and modest debt protection indicators owing moderate profitability and relatively high debt levels. The ratings are further constrained by limited track record of operations of MFL in manufacturing of surgical cotton, working capital intensive operations, susceptibility of its profitability to volatile cotton prices and cyclical nature associated with fragmented cotton ginning industry.

The weaknesses are partially offset by its presence in niche segment of surgical cotton, growing scale of operations, vast experience of promoters and strategic location of its manufacturing facilities in the cotton producing cluster of Gujarat and Madhya Pradesh along with government's fiscal benefits.

The ability of the company to improve its profitability and capital structure while managing working capital requirements will be a key rating sensitivity. Execution of un-envisaged large sized debt funded capital expenditure affecting debt protection indicators shall also be key rating monitorable.

Detailed description of the key rating drivers

MFL was initially engaged in cotton ginning at Gujarat and Madhya Pradesh. It had incurred capital expenditure of around Rs.46 crore during FY14 and FY15 to manufacture surgical, bleach and absorbent cotton which has end use in pharmaceutical and consumer segment. The scale of operations and Profit before interest, lease, depreciation and tax (PBILDT) of MFL have been consistently growing at a compounded annual growth rate (CAGR) of 44% and 74% respectively over FY13-FY16 due to commencement of value added surgical, bleached and absorbent cotton's manufacturing facility. However, the company has leveraged capital structure marked by overall gearing of 2.36 times as on March 31, 2016 and modest debt protection indicators marked by total debt/GCA of 9.62 times during FY16. It was on account of loans availed to fund capital expenditure for manufacturing surgical cotton, working capital intensive nature of operations and modest net-worth base. Furthermore, MFL reported moderate PBILDT margins of 8.99% during FY16 on account of significant contribution of ginned cotton and trading in total operating income (TOI). The operations of MFL are working capital intensive with low creditors period and high collection period. The working capital cycle is elongated to 83 days during FY16 which resulted in high utilization of fund based working capital limits and low current ratio as on March 31, 2016. Promoters have infused equity of Rs.3 crore during H1FY17 (refers to the period April 1 to September 30) to improve liquidity position.

Furthermore, the promoters and executives of MFL have over a decade of experience in cotton processing and trading of agro commodities, which has helped it in terms of raw material procurement, ease of managing day-to-day operations and marketing.

Analytical approach:Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Short-term instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios – Non-financial sector](#)

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

About the Company

MFL was incorporated in June, 2009 as a private limited company named Mohini Fibers (Pvt) Limited by Mr Sarvyapriya Bansal, Mr Snehakar Bansal and Mr Avnish Bansal. Subsequently in 2015, it was converted into public limited company under its current name. MFL is engaged in cotton processing and manufacturing of surgical, bleached and absorbent cotton. Company has total installed capacity of 9000 metric tonne per annum (MTPA) for cotton processing at Gondal, Gujarat and Pithampur, Madhya Pradesh and 2,400 MTPA for Surgical, bleached and absorbent cotton segment at Pithampur. Furthermore, facilities of MFL have been certified by Global Organic Textile Standard (GOTS), Good manufacturing process (GMP) and other regulatory bodies of Europe and USA which enable it to export bleached and surgical cotton.

During FY16 (Audited), MFL reported TOI of Rs. 123.09 crore (FY15: Rs.91.04crore) with profit after tax (PAT) of Rs. 2.25 crore (FY15: Rs.1.02 crore). Based on provisional Q1FY17 (refers to the period April 1 to June 30), MFL reported TOI of Rs.49.50 crore with profit after tax (PAT) of Rs.1.94 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based - LT/ ST-Working Capital Limits	NA	NA	NA	21.25	CARE BB+; Stable / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT/ ST-Working Capital Limits	LT/ST	21.25	CARE BB+; Stable / CARE A4+	-	-	-	-

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