

Mohini Fibers Limited

March 06, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term/Short term Bank Facilities	25.00 (enhanced from 21.25)	CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook: Stable/A Four Plus)	Reaffirmed
Long Term Bank Facilities	20.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Total	45.00 (Rupees Forty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mohini Fibers Limited (MFL) continue to be 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 cyclicity 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 ratings also take cognizance of completion of expansion project of MFL in the recent past.

The ability of the company to improve its profitability and capital structure while managing working capital requirements will be a key rating sensitivity. Stabilization of recently expanded capacity and MFL's ability to generate envisaged benefits from it shall also be key rating monitorable.

Detailed description of the key rating drivers

Key Rating Weaknesses

Leveraged capital structure with modest debt coverage indicators: MFL has leveraged capital structure marked by overall gearing of 2.36 times as on March 31, 2016. 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. The company had modest debt protection indicators during FY16 on account of relatively higher debt level and modest profitability. Debt levels were higher due to debt funded capital expenditure incurred during the past and working capital intensive operations.

Limited track record of operations in surgical and absorbent cotton segment: MFL was initially engaged in cotton ginning at Gujarat and Madhya Pradesh. It had incurred sizeable capital expenditure of around Rs.46 crore during FY14 and FY15 to establish manufacturing facility of surgical, bleach and absorbent cotton. MFL has further expanded the capacity of absorbent cotton from 4,500 metric tonne per annum (MTPA) to 6,750 MTPA during current year. Project has been funded through term loan of Rs.10 crore and rest through promoter contribution and internal accrual. Furthermore, sales of surgical and absorbent cotton was moderate at Rs.26.60 crore during FY16 out of total operating income of Rs.123.09 crore reported during FY16. Hence, MFL's ability to generate the envisaged returns from added capacity shall be crucial from the credit perspective.

Moderate profitability margins and working capital intensive operations: PBILDT margin of MFL though improved from 5.14% during FY15 to 8.99% during FY16 it continued to remain moderate on account of significant contribution of ginned cotton and trading in total operating income (TOI).MFL's business risk profile remains constrained on account of the company's modest profitability margins in the highly fragmented and intensely competitive cotton ginning industry. 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.

Key Rating Strengths

Growth in scale of operations and location advantage: 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

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

44% and 74% respectively over FY13-FY16. MFL has commenced production of surgical, bleached and absorbent cotton which has end use in pharmaceuticals and consumer segment and hence fetches relatively higher sales realization. MFL's presence in cotton producing region has geographical advantage in terms of lower logistics expenditure (both on the transportation and storage) & ready availability of raw materials.

Experienced promoters: 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](#)

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 9,000 MTPA for cotton processing at Gondal, Gujarat and Pithampur, Madhya Pradesh and 6,750 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. 123.09crore (FY15: Rs.91.04crore) with profit after tax (PAT) of Rs. 2.25crore (FY15: Rs.1.02crore). Based on provisional Q1FY17 (refers to the period April 1 to June 30), MFL reported TOI of Rs.49.50crore with profit after tax (PAT) of Rs.1.94crore.

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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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	25.00	CARE BB+; Stable / CARE A4+
Fund-based - LT-Term Loan	NA	NA	2022	20.00	CARE BB+; Stable

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	25.00	CARE BB+; Stable / CARE A4+	1)CARE BB+; Stable / CARE A4+ (10-Feb-17)	-	-	-
2.	Fund-based - LT-Term Loan	LT	20.00	CARE BB+; Stable	-	-	-	-

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