

Mohite Industries Limited

April 16, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	22.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short term Bank Facilities	2.00	CARE A4 (A Four)	Assigned
Proposed Long/Short term Bank Facilities	1.00	CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)	Assigned
Total Facilities	25.00 (Rs. Twenty Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mohite Industries Limited (MIL) are constrained by moderate scale of operations, moderate debt coverage indicators, highly working capital intensive nature of operations, moderate liquidity position, susceptibility of profit margins due to volatile material prices and presence in competitive and fragmented industry.

The ratings however, derive strength from long track record coupled with experienced promoters in the business, healthy profit margins and comfortable capital structure.

Ability of MIL to increase its scale of operations while maintaining its profitability amidst intense competition while maintaining its capital structure along with efficient management of its working capital requirement remain the key rating sensitivity.

Detailed description of Key rating drivers

Key Rating Weaknesses

Moderate scale of operations: Total operating income remained of the company remained moderate during past four years ended FY18. Total operating income (TOI) of the company grew marginally to Rs. 103.08 crore in FY18 and Rs. 58.16 crore in H1FY19 (vis-à-vis Rs. 95.94 crore in FY17 and Rs. 49.91 crore in H1FY18 respectively) due to increase in prices and order execution.

Moderate debt coverage indicators: The debt coverage indicators moderate however improved with total debt to gross cash accruals at 10.33x in FY18 vis-à-vis 26.50x in FY17 due to increase in gross cash accruals and reduced interest cost. Further interest coverage ratio stood stable to 1.90x in FY18 from 1.92x in FY17. Further during H1FY19 interest coverage of the company stood at same level to 2.16x vis-à-vis 2.13x in H1FY18.

Highly working capital intensive nature of operations: Operations of MIL are working capital intensive mainly on account of funds being blocked in inventory (average inventory period is 162 days) as company has to maintain inventory to execute the orders in timely manner and receivables (avg. collection period is 149 days) as company adopted liberal credit policy to sustain in the competitive market scenario. Further on the other hand it makes payment within 10-15 days which led to average creditors' period of 17 days. All taken collectively, operations of the company remains highly working capital intensive leads to full utilization of its working capital limit (Rs. 22 crore) for past twelve months ended January 2019.

Moderate liquidity position: Liquidity position of the company stood moderate with current ratio of 2.75x as on March 31, 2018 and quick ratio of 1.64x in FY18. Company has free cash and bank balance remained low at Rs.0.20 crore as on March 31, 2018 vis-à-vis Rs. 0.12 crore as on March 31, 2017; however net cash flow from operating activity remains positive at Rs. 11.52 crore as on March 31, 2018 vis-à-vis Rs. 15.47 crore as on March 31, 2017.

Susceptibility of profit margins due to volatile material prices: The raw material is the major cost driver (constituting about 65% of total cost of sales in FY18) and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of the raw cotton being major cost component amongst all raw materials is volatile in nature. Accordingly, the profitability margins of the company are susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum, any substantial increase in raw material costs would affect the company's profitability.

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

Presence in competitive and fragmented industry: Company operates in a highly competitive and fragmented textile industry. The company witnesses intense competition from both the other organized and unorganized players domestically. This fragmented and highly competitive industry results into price competition thereby posing a threat to the profit margins of the companies operating in the industry.

Key rating Strengths

Long track record coupled with experienced promoters in the business: MIL possesses an established track record of more two decades in the business and is promoted by Chairman and managing director Mr. Shivaji Mohite and Joint Managing Director Mrs. Monika Mohite who have rich experience for more than two decades in the industry. All the promoters are assisted by experienced management team in the field of accounts, sales and production to carry out day-to-day operations.

Healthy profit margins: The operating profit margins of company have been healthy though fluctuating (in the range of 11.08% to 21.16% during FY16-FY18) from the past four years ended FY18 on account of fluctuating cost of raw material. It declined to 16.72% in FY18 from 21.16% in FY17 mainly on account of increase in material cost, employee cost, legal and professional fees and miscellaneous expenses in FY18. Further during H1FY19, PBILDT margin of the company declined to 15.80% vis-à-vis 17.91% in H1FY18. Net profit margins of the company remained low and in the range of 1.33% to 3.24% during last four years ending FY18 due to high depreciation and finance cost. Further during FY18, net profit margin of the company stood at 1.33%. During FY17, company reported net loss of Rs. 3.48 crore on account of expenses written off amounting to Rs. 6.88 crore (which were shown in capital work in progress till FY16) incurred towards hydro power plant project as company was unable to complete the project in stipulated time led to cancellation of the same by Government of Maharashtra. Further during H1FY19, PAT margin of the company declined to 2.18% vis-à-vis 2.32% in H1FY18.

Comfortable capital structure: Capital structure of the company remained comfortable and in the range of 0.86x to 0.97x during past four balance sheet dates ended March 31, 2018 on account of sizable net worth base and lower debt level. Further overall gearing of the company stood stable at 0.97x as on March 31, 2018 and March 31, 2017. Further during H1FY19 overall gearing of the company improved to 0.90x on account of lower debt level due to lower utilization of its working capital limit.

Analytical approach: Standalone

Applicable Criteria:

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

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

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Private Power Producers](#)

About the Company

Mohite Industries Limited (MIL), incorporated in 1990, is promoted by Mr. Shivaji Mohite and Mrs. Monika Mohite. MIL is engaged in the manufacturing cotton yarn (constitutes 85% of total sales) and rest from generation of hydropower. Company has cotton spinning unit in Kolhapur with an installed capacity of 36000 spindles per annum. It procures raw cotton from the brokers of raw cotton situated in Maharashtra and Madhya Pradesh and premium cotton yarn is supplied to brokers situated in Mumbai and Ichalkaranji, Maharashtra. MIL has captive 10 megawatt hydropower plant at the foot of Radhanagari Dam and the generated power is used for textile unit.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	95.94	103.08
PBILDT	20.30	17.23
PAT	-3.48	1.37
Overall gearing (times)	0.97	0.97
Interest coverage (times)	1.92	1.90

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History (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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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

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In case of partnership/proprietary concerns, the rating 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-Cash Credit	-	-	-	22.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	2.00	CARE A4
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	1.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	22.00	CARE BB; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A4	-	-	-	-
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	1.00	CARE BB; Stable / CARE A4	-	-	-	-

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