

Press Release

Mothi Spinner Private Limited

November 01, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 342.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 342.00 crore bank facilities of Mothi Spinner Private Limited. The outlook is '**Stable**'.

MSPL, incorporated in 2000 is an Erode-based spinning unit promoted by 6 people, Mr. G. Rajamanickam, Mr.M.Chandrasekaran, Mr.G.Doraisamy, Mr.K.Subramani, Mr.K.P Balakrishnan and Mr.V.Srinivasan. The company is primarily engaged in the manufacturing viscose yarn. It also manufactures viscose-flax yarn, viscose polyester, viscose cotton blend and various other types of yarn depending upon the market requirements. The company also supplies yarn to the weaving units which are owned by the directors of MSPL. The manufacturing facility is located at Pallipalayam (Erode) with spindle capacity of 99216 and 22 vortex machines. MSPL plans to increase the capacity to 1,00,926 spindles and 42 vortex machines in FY2019. The company also has windmills with installed capacity of 22.65 MW which caters to around 70 percent of the company's power requirements. The company procures cotton & flux from local suppliers and viscose staple fiber from Grasim Industries Limited. .

Analytical Approach

Around 25-30 percent of the revenues of MSPL is derived from its group companies, the transactions are however facilitated on arms-length basis. There are no cross holdings and related party transactions within the group companies. Acuite, therefore has considered the standalone business and financial risk profile to arrive at this rating.

Key Rating Drivers

Strengths

• Established presence in the textile industry and vast promoter experience

MSPL is engaged in the manufacturing of viscose yarn and blended yarn (i.e. blend of viscose yarn with other yarn) for almost two decades. The board of MSPL consists of six directors who are present since the inception of the company. Each of them has over 25 years of experience in managing various aspects of business and trade in textile sector. The management is ably supported by a qualified and experienced second line of management. The extensive experience of the promoters is also reflected through its healthy revenue growth. The revenues of the company have grown at a compounded annual growth rate (CAGR) of 14 percent over the last four years through 2018 to Rs.542.16 crore. MSPL had commenced its operations with 16,128 spindles in 2000, currently it has been operating on a spindle capacity of 99,216. The units are equipped with vortex spinning technology which has resulted in better operating profitability for MSPL. The company currently has 22 vortex spinning machines which it plans to increase to 42 machines. Acuite believes that the presence of the promoters in this industry fueled by their experience will strengthen the business profile and its ability to scale up over the medium term.

• Significant improvement in profitability driven by savings in power cost and adoption of newer technology

The revenues of MSPL have grown significantly from Rs.358.9 crore in FY2016 to Rs.474.2 crore in FY2017 to Rs.542.16 crore in FY2018 on account of continuous capacity additions undertaken by the company. It has increased its capacity almost 6 times from its inception to 99,216 spindles. In terms of

volumes, the yarn sales depicted a growth of 17 percent on a y-o-y basis. The overall profitability of the company stands improved; marked by an EBITDA margin of 19.77 percent for FY2018 (PY:15.19 percent) and PAT margin of 7.21 percent (PY:4.05 percent). The improvement can be attributed to mainly two factors; viz, savings in power cost and overall savings on account of operating leverage witnessed by large scale of operations. The company has been increasing its windmill energy generation capacity on a year on year basis on account of which its reliance on external power reduces. The captive windmill units currently cater to around 70 percent of its total energy requirements. Going forward, the windmill energy generated will be able to meet roughly 80 percent of the energy requirement on account of the recent capex undertaken to further increase its power generation capacity. In the previous year, MSPL has increased its windmill capacity from 16.55 MW to 22.65 MW. Going forward also, Acuite believes that the margins are expected to improve further on account of further addition of 6.10 MW to the captive power generation capacity over the medium term. Also, the company has recently adopted vortex technology machines which uses less electricity and lower manpower. Acuite believes that MSPL shall benefit from the scale of operations and will be able to maintain margins at steady levels on the back of further savings expected in power cost and better efficiency on adoption of newer spinning technology.

- **Moderate financial risk profile and liquidity profile**

The company has followed a moderate financial risk profile marked by healthy tangible net worth, moderate gearing and healthy debt protection measures. The net worth of the company is estimated to be around Rs.162.93 crore as on March 31, 2018 as against Rs.119.05 crore in the previous year. The improvement in net worth is attributable to healthy accretion to reserves over last three years. The gearing stood at 1.39 times as on March 31, 2018 as against 1.34 times in the previous year on account of debt-funded capital expenditure undertaken by the company. However, it was to some extent moderated by the healthy accretions to net worth. Though, the company has capex plans of the Rs.110.00 crore over the next two years. Acuite, however, expects the gearing of the company to remain below 2.0 times over the medium term. Interest Coverage Ratio remained healthy in the range of 4.2 - 4.5 times. The Debt Service Coverage Ratio stood at 2.20 times for FY2018 as against 2.27 times in the previous year. The financial risk profile is also marked by healthy liquidity, the company's cash accruals over the medium term are anticipated to remain in the range of Rs. 70 - 75 Cr against its debt repayment obligations of Rs.30 - 35 Cr during the same period. The current ratio of the company is moderate at around 1.63 times. The company had unencumbered cash and bank balances of Rs. 12 Cr. as on March 31, 2018. The company also maintains comfortable liquidity profile as can be seen from the average cash credit limit utilization which has remained around 70 percent for the six months ended July, 2018. Also, the operating cycle of the company is comfortable; though slightly impacted as on March 31, 2018 which is evident from the Gross Current Asset (GCA) days which stood at 123 for FY2018 as against 92 days for FY2017. The GCA days has increased on account of increase in debtor days from 65 days in FY17 to 84 days in FY18. The increase in debtor days was mainly on account of increase in average sale in the last quarter of FY18. Out of the total debtors realizable i.e. Rs.136.71 crore, the amount outstanding towards related party was Rs.89.52 crore, which was realized in Q1FY2019. The company offers a credit period of 60-90 days to its debtors and pays in advance to its supplier.

Weaknesses

- **High supplier concentration with entire raw material procured from Grasim Industries Limited**

The volatility associated with viscose and viscose flax yarn has been relatively less compared to cotton and cotton yarn prices. Although, the raw material prices are fairly stable, there is a risk of high supplier concentration with Grasim Industries Limited, which is the major supplier of viscose in India, leading to limited pricing flexibility.

- **Susceptibility of operating margins to volatility in raw material prices**

The company sources VSF through a single supplier, the prices of which are dependent on the pricing of wood pulp. The prices of VSF are also a function of the downstream demand and the movement in the prices of substitutes such as cotton and polyester staple fibre. Any adverse price movement are likely to impact the operating margins of the company.

Outlook: Stable

Acuite believes that the outlook on the MSPL will remain 'Stable' over the medium term on account of the established presence and extensive experience of the promoters in the textile industry. The outlook

may be revised to 'Positive' in case the company registers substantial and sustained growth in its revenue and profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	542.16	474.22	358.89
EBITDA	Rs. Cr.	107.17	72.04	46.30
PAT	Rs. Cr.	39.10	19.19	15.62
EBITDA Margin	(%)	19.77	15.19	12.90
PAT Margin	(%)	7.21	4.05	4.35
ROCE	(%)	22.01	13.68	24.47
Total Debt/Tangible Net Worth	Times	1.39	1.34	1.33
PBDIT/Interest	Times	4.78	3.75	4.01
Total Debt/PBDIT	Times	2.10	2.48	2.82
Gross Current Assets (Days)	Days	123	92	96

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	99.30	ACUITE A- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	15.30	ACUITE A- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A- / Stable

Term loans	Not Applicable	Not Applicable	Not Applicable	29.40	ACUITE A- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+

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