

Press Release

Mothi Spinner Private Limited

January 07, 2020



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 380.00 Cr. (Enhanced from Rs. 342.00 Crore)
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and 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. 380.00 crore bank facilities of Mothi Spinner Private Limited (MSPL). The outlook is '**Stable**'.

MSPL, incorporated in 2000, is an Erode-based company, engaged in manufacture of Viscose yarn. MSPL has been promoted by 6 entrepreneurs, Mr. G. Rajamanickam, Mr. M. Chandrasekaran, Mr. G. Doraisamy, Mr. K. Subramani, Mr. K. P. Balakrishnan and Mr. V. Srinivasan. Besides regular viscose yarn, it also manufactures viscose-flax yarn, viscose polyester, viscose cotton blend and various other types of yarn. The manufacturing facility is located at Pallipalayam (Erode).

Analytical Approach

Acuite, has considered the standalone business and financial risk profile of MSPL to arrive at this rating.

Key Rating Drivers

Strengths

• Established presence in the Viscose yarn segment:

MSPL is engaged in the manufacturing of viscose filament yarn (VFY) and blended yarn (i.e. blend of viscose yarn with other yarn) for almost two decades. VFY is made out of Viscose Staple Fiber (VSF) which is derived from wood pulp, VFY has been increasing in demand over the recent years mainly on account of its characteristics which are akin to cotton, it is less expensive than cotton and yields better absorption qualities. MSPL had commenced its operations with 16,128 spindles in 2000, currently it has been operating on a spindle capacity of 100,926 and 42 vortex machines. The company has managed to adopt newer technologies which has supported its ability to maintain enduring relationships with its clients. The company's turnover increased from Rs. 358 Crore in FY2016 to Rs. 550 Crore in FY2019. Its clientele mostly comprises of weaving units located in and around Erode and Tirupur. Besides external clients, the company also sells to weaving units owned and controlled by directors of MSPL. The company has established itself as one of the leading manufacturers of Viscose Filament Yarn (VSY) in the Erode textile belt. Besides long standing customer relationships, the company also has developed established relationship with Grasim Industries Limited, the leading manufacture of raw material, VSF.

The current board of MSPL comprising its six promoters have been associated with the company since its inception. Each of them have over three decades 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.

Acuite believes that the established presence in VFY segment and promoters experience in this industry will continue to support the business profile of the company.

• Healthy financial risk profile on the back of robust accruals and prudent capital structure:

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 around Rs.196.38 crore as on March 31, 2019 as against Rs.119.05 Crore as on March 31, 2017. The improvement in net worth is attributable to healthy accretion to reserves over last three years. The overall profitability

of the company stands improved; marked by an EBITDA margin of 20.98 percent for FY2019 from 19.77 percent in FY2018 (P.Y. 15.19 percent). The net cash accruals improved from Rs. 47.19 Crore in FY2017 to Rs. 72.30 Crore in FY2019. One of the major drivers of steady trend in profitability margins was the company's dependence on captive windmill units which has resulted in lower dependence on external power for its energy requirements.

Besides, robust accruals from operations, the management has focused on maintaining a prudent capital structure. The peak gearing of the company over the past three years stood at 1.45 times as on March 31, 2019, on account of debt-funded capital expenditure undertaken by the company. Though, the company has capex plans of the Rs. 70.00 crore in FY2020 Acuité, 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 4.0 - 4.5 times. The Debt Service Coverage Ratio stood at 1.92 times for FY2019 as against 2.2 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. 75 - 85 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 1.59 times. The company had unencumbered cash and bank balances of ~Rs. 7 Cr. as on March 31, 2019.

Acuité expects the financial risk profile of MSPL to remain healthy on the back of steady accruals from operations and managements philosophy of adopting a judicious approach to debt funded capex.

Weaknesses

• Susceptibility of operating performance to input price volatility and increasing competition:

Leading players like MSPL depend on domestic VSF producers like Grasim and imports for their raw material requirements. The profitability is susceptible to changes in the prices of these raw material i.e. viscose staple fibre (VSF), any adverse price movement are likely to impact the operating margins of VFY manufacturers. Recently the industry has been facing competition from imports of VFY from countries like China which has impacted the margins of players. While the leading domestic players of VFY like MSPL, have been negotiating with the government for tariff protection against these imports, they have also negotiated with Grasim for lowering input prices. Since some of these players are key clients for Grasim, it has revised its prices of VSF to support the trade and compete effectively against these imports.

The operating performance of players of players like MSPL will be linked to their ability to maintain optimal cost efficiency and scale up their operations while maintaining their margins and managing their working capital requirements efficiently. The regulatory environment governing imports of both raw material i.e. VSF and the end product VFY shall be critical.

Acuité believes that MSPL should be able to maintain its operating profitability around existing levels, notwithstanding the volatility in prices of its key inputs on the back of its established position in the domestic market.

Rating Sensitivities

- Scaling up of operations, while maintaining operating margins,
- Movement in capital structure
- Working capital Cycle.
- Regulatory environment for imports of yarn.

Material Covenants

None

Liquidity: Adequate

The company also maintains a comfortable liquidity profile, its net cash accruals stood at ~Rs. 72 Crore as against a debt obligation of ~Rs. 20-25 Cr. The company's average cash credit limit utilization remained around 83 percent for the six months ended October, 2019. The operating cycle of the company is comfortable; though slightly impacted as on March 31, 2019, the Gross Current Asset (GCA) days stood at 153 for FY2019 as against 123 days for FY2018 due to increase in inventory holding.

Outlook: Stable

Acuité 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	550.19	542.16
PAT	Rs. Cr.	33.45	39.10
PAT Margin	(%)	6.08	7.21
Total Debt/Tangible Net Worth	Times	1.45	1.39
PBDIT/Interest	Times	4.04	4.78

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
01st November, 2019	Cash Credit	Long Term	29.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	27.00	ACUITE A- / Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A- / Stable (Assigned)
	Term loans	Long Term	99.30	ACUITE A- / Stable (Assigned)
	Term loans	Long Term	15.30	ACUITE A- / Stable (Assigned)
	Term loans	Long Term	55.00	ACUITE A- / Stable (Assigned)
	Proposed Bank Facility	Long Term	40.00	ACUITE A- / Stable (Assigned)
	Term loans	Long Term	29.40	ACUITE A- / Stable (Assigned)
	Letter of credit	Short Term	17.00	ACUITE A2+ (Assigned)
	Letter of credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of credit	Short Term	10.00	ACUITE A2+ (Assigned)

*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	56.00*	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	86.76	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.13	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	52.83	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.61	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	27.32	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	24.75	ACUITE A-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.49	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	13.25	ACUITE A-/Stable (Reaffirmed)
Proposed Bank facilities	Not Applicable	Not Applicable	Not Applicable	0.36	ACUITE A-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2+ (Withdrawn)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)

*Includes sublimit Rs. 17.00 Crore letter of Credit

Contacts

Analytical	Rating Desk
<p>Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 vinayak.nayak@acuite.in</p> <p>Salome Farren Rating Analyst - Rating Operations Tel: 022 49294072 salome.farren@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294021 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

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