

Press Release

Mothi Spinner Private Limited

March 31, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 380.00 Cr.
Long Term Rating	ACUITÉ A-/Stable (Reaffirmed)
Short Term Rating	ACUITÉ A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITÉ A-**' (read as **ACUITÉ A minus**) and short term rating of '**ACUITÉ A2+**' (read as **ACUITÉ A two plus**) on the Rs.380.00 crore bank facilities of Mothi Spinners Private Limited (MSPL). The outlook is '**Stable**'.

The ratings continue to reflect MSPL's healthy business risk profile marked by its established market position in the viscose yarn and blended yarn segment. The ratings also derive comfort from its strong financial risk profile marked by healthy network, modest gearing and comfortable debt protection ratios. These credit strengths are partly offset by the risks inherent in its continuing capital expenditure programmes and the working capital intensity in MSPL's operations.

Mothi Spinners Private Limited incorporated in 2000 is engaged in manufacturing of Viscose yarn. Besides regular viscose yarn, the company also manufactures viscose-flax yarn, viscose polyester, viscose cotton blend and various other types of yarn. The manufacturing facility is located at Pallipalayam (Erode). Currently, the company has a spindle capacity of 1,19,376 and 44 Vortex machines. The company also has 26.65 MW of windmill capacity which is used for captive consumption. The company is planning to add 6 Vortex machines and a 10 MW solar power plant in FY22.

Analytical Approach

Acuite has taken a standalone view of business and financial risk profile of MSPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and increased scale of operations

MSPL was promoted by Mr. G. Rajamanickam, Mr. M. Chandrasekaran, Mr. G. Doraisamy, Mr. K. Subramani, Mr. K. P. Balakrishnan and Mr. V. Srinivasan. The current management has more than three decades of experience in textile business through other group concerns. The company had incurred a capital expenditure of Rs 102 Cr in FY20 for capacity addition and for setting up a 2 MW windmill. The same was funded through a mix of debt and equity in 2:1 ratio. The scale of operation of the company stood healthy as reflected from its revenue of Rs 609.79 Cr in FY20 as against Rs 550.19 Cr in FY19. The improvement is driven by rise in sales volume of viscose yarn. However, the scale of operation is expected to decline in FY21 because of low capacity utilization during H1FY20 due to pandemic outbreak. The company has recorded revenue of Rs 442 Cr till February 2021 (Provisional). Acuite believes the scale of operation is expected to improve over the medium term backed by rise in capacity utilization because of rising demand for textile products from domestic and overseas markets.

Strong financial risk profile

The financial risk profile of the company is marked by high net worth, modest gearing and healthy debt protection metrics. The net worth of the company stood at Rs.208.76 Cr in FY2020 as compared to Rs. 196.38 Cr in FY2019. The gearing of the company rose moderately to 1.65 times as on March 31, 2020 as compared to 1.45 times in the previous year due to its debt-led capital expenditure plan. The total debt of Rs.343.98 Cr as on March 31, 2020 consisted of long-term debt of Rs.235.34 Cr, short-term loan of Rs. 107.24 Cr and unsecured loan of Rs 1.40 Cr. TOL/TNW stood at 1.96 times in FY20 as against 1.76 times in FY19. Interest coverage ratio (ICR) stood at 3.05 times in FY2020 as against 4.04 times in FY 2019. The debt service coverage

ratio (DSCR) also stood comfortable at 1.56 times in FY2020 as against 1.92 times in FY2019; the moderate deterioration is on account of a rise in finance cost because of enhanced debt levels. . The net cash accruals against total debt (NCA/TD) stood at 0.19 times in FY2020 as compared to 0.25 times in the previous year. Acuite believes the financial risk profile of the company will remain strong over the medium term backed by improving trend in accruals.

Healthy profit margins

The company has a healthy profit margin as operating margin stood at 16.01 percent in FY20 as compared to 20.98 percent in FY19. The decline in margin is mainly due to fluctuation in raw material price and increase in power cost due to capacity addition. In the current financial year, prices of yarn have increased because of rising demand from overseas and domestic markets. The profitability margin is expected to witness considerable improvement in the current fiscal as the company has posted EBITDA margin of about 19 percent during 11MFY21 (Provisional). Acuite believes the profitability will further improve over the medium term backed by installation of a 10 MW solar power plant in FY22 for captive consumption which will reduce the power cost.

Weaknesses

Company in continuous capex mode

The company has continuously incurred capital expenditure in the past 2-3 years ended FY'2020 towards enhancement in capacities. The company had incurred capital expenditure of around Rs.290 Cr in the past 3 years till FY'20 for increasing spinning capacity and addition of windmills. The said capex however, has been funded through an equitable mix of own funds and external borrowings. Going forward, the company will incur another capital expenditure of Rs 72 Cr in FY22 for addition 6 Vortex machines and installation of 10 MW of Solar power plant. The upcoming capex plan will be funded through mix of debt and equity in 2:1 ratio. Any unplanned debt funded capex plan would be a key rating sensitivity factor for MSPL.

Working capital intensive operations

The operations of the company are working capital intensive as reflected from its Gross Current Asset (GCA) days. The GCA days stood high at 157 days in FY20 as against 153 days in FY19 because of increased debtor days. In FY20, the company had witnessed stretched receivables due to nationwide lockdown which had resulted in high debtor days of 95 days. Inventory days stood at 35 days in FY20 as against 47 days in FY19. Acuite believes the working capital management of the company will remain at similar levels over the medium term.

Rating Sensitivity

- Significant revenue growth while maintaining profitability
- Elongation in working capital

Material Covenant

None

Liquidity Profile: Adequate

The company has an adequate liquidity profile as reflected from its net cash accrual of Rs 64.04 Cr. in FY20 as against the current maturity of Rs 38.89 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 81-88 Cr as against the current maturity of around Rs 57 Cr from FY21-FY23. The working capital utilization during 12 months ended February 2021 stood at around 78 percent. Current ratio stood comfortable at 1.43 times in FY20. However the company has a relatively high working capital requirement as GCA days stood at 157 days in FY20 as against 153 days in FY19. Acuite believes liquidity profile will remain adequate in medium term backed by healthy cash accrual.

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 significant revenue growth along with improvement in profitability margin. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	609.79	550.19
PAT	Rs. Cr.	12.39	33.45
PAT Margin	(%)	2.03	6.08
Total Debt/Tangible Net Worth	Times	1.65	1.45
PBDIT/Interest	Times	3.05	4.04

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
07 January 2020	Cash Credit	Long Term	56	ACUITE A-/Stable (Reaffirmed,)
	Cash Credit	Long Term	27.00	ACUITE A-/Stable (Reaffirmed,)
	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Reaffirmed,)
	Cash Credit	Long Term	10.00	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	86.76	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	8.13	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	52.83	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	10.61	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	27.32	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	24.75	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	10.49	ACUITE A-/Stable (Reaffirmed,)
	Term Loan	Long Term	13.25	ACUITE A-/Stable (Reaffirmed,)
	Proposed Bank facilities	Long Term	0.36	ACUITE A-/Stable (Reaffirmed,)
	Letter of Credit/Bank	Short Term	17.00	ACUITE A2+ (Withdrawn)

	Guarantee			
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed,)
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A2+ (Reaffirmed,)
	Letter of Credit/Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed,)
01- November-2019	Cash Credit	Long Term	29	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	27	ACUITE A-/Stable (Assigned)
	Cash Credit	Long Term	10	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	99.30	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	15.30	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	55.00	ACUITE A-/Stable (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	17.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit/Bank Guarantee	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	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	46.00	ACUITE A-/Stable (Reaffirmed,)
Term Loan	December 2012	Not Applicable	March 2026	86.09	ACUITE A-/Stable (Reaffirmed,)
Term Loan	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A-/Stable (Reaffirmed)

Term Loan	July 2013	Not Applicable	September 2021	1.65	ACUITE A-/Stable (Reaffirmed)
Term Loan	April 2019	Not Applicable	March 2026	55.38	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	January 2021	Not Applicable	March 2025	29.42	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	August 2019	Not Applicable	January 2026	33.41	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	31.00	ACUITE A-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A-/Stable (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Standby Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE A-/Stable (Reaffirmed)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Tel: 033-66201203 pooja.ghosh@acuite.in Tonoy Banerjee Rating Analyst Tel: 033-66201206 tonoy.banerjee@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

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