

Rating Advisory November 30, 2020 | Mumbai

Mohit Industries Limited

Advisory as on November 30, 2020

This rating advisory is provided in relation to the rating of Mohit Industries Limited

The key rating sensitivity factors for the rating include:

Upward Factors

- Sharp improvement in the debt protection measures with interest coverage rising over 2 times on sustainable basis
- Significant improvement in profitability and working capital management

Downward Factors

- Profitability declining by over 100 basis points with continued working capital intensity
- Any large capex or deterioration in working capital cycle affecting the liquidity

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Mohit Industries Limited (MIL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If MIL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt. Nov 1, 2016, SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/71 dt. June 30, 2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt. January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the company

MIL was established in 1991 as Mohit Fibers Pvt Ltd by Mr Sitaram Saboo. It was reconstituted as a public limited company in 1994, and got its current name in 1997. The company manufactures texturised yarn and grey fabrics at its unit in Kim village, Surat (Gujarat).

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Rating Rationale

March 30, 2020 | Mumbai

Mohit Industries Limited

Long-term rating downgraded to 'CRISIL BB/Stable' ; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.72.62 Crore
Long Term Rating	CRISIL BB/Stable (Downgraded from 'CRISIL BB+/Stable')
Short Term Rating	CRISIL A4+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its long term rating on the bank facilities of Mohit Industries Ltd (MIL) to **'CRISIL BB/Stable'** from 'CRISIL BB+/Stable' while the short term rating has been reaffirmed at 'CRISIL A4+'.

The rating downgrade reflects the weakening of MIL's financial profile, particularly debt protection measures amidst moderated profitability. MIL's operating margin is expected to be around 6% as against past levels of around 7.5% and above. Simultaneously, its working capital intensity remains high at over 4 months leading to continued high reliance on debt. Further, MIL's liquidity shall remain constrained by the repayment obligations. Thus contrary to earlier CRISIL expectations of improvement, MIL's profitability, accruals and debt protection measures are likely to remain at subdued levels.

The ratings reflect the extensive experience of MIL's promoters, their funding support, the company's established market position and moderate capital structure. These strengths are partially offset by exposure to intense competition, working capital intensive operations, and average debt protection measures.

Analytical Approach

For arriving at the ratings, CRISIL has considered unsecured loans of Rs 11 crore as on March 31 2019, extended by MIL's promoters, as 75% equity and 25% debt. This is because the loans are interest free, and expected to remain in the business in the medium term.

Key Rating Drivers & Detailed Description

Strengths:

*** Extensive experience of the promoters**

Benefits from the promoters' experience of over four decades and their funding support is expected to continue. The promoters started manufacturing yarn in 1991 through MIL and Mohit Overseas Pvt Ltd (MOPL). Over the years, MIL has developed healthy relationship with its customers and suppliers.

*** Moderate capital structure**

Networth and gearing were moderate at Rs 36.9 crore and 1.43 times as on March 31, 2019. Previously, capital structure was highly leveraged, owing to long-term debt and higher dependence on working capital loans.

*** Established market position**

MIL is focused on expanding its export operations, which account for 50% of turnover. The company mainly exports texturised yarn to South Korea, Thailand, UK and Germany. In the domestic market, texturised yarn is sold to weavers located in and around Surat, and grey fabric to traders. The company enjoys a wide base of domestic and export customers.

Weaknesses:

*** Working capital intensive operations**

Operations are moderately working capital intensive, with gross current assets of 134 days, due to receivables and inventory of 48 and 47 days, respectively, as on March 31, 2019. Any deterioration in the receivables cycle will remain a rating sensitivity factor.

*** Average debt protection measures**

Interest coverage and net cash accrual to total debt ratios were 1.5 times and 0.09 time, respectively, for fiscal 2019. While the company has undertaken measures to lower debt costs, the debt protection measures remain constrained by modest portability and high debt funded working capital requirements.

*** Exposure to intense competition**

Intense competition in the textile industry, and limited differentiation in the end-product limit the pricing power of individual texturisers and keep operating margin range-bound.

Liquidity Stretched

Liquidity is stretched marked by modest accruals just about covering the repayment obligations and high working capital intensity. Cash accrual, expected at Rs 4.5-5 crore each year will be about 1.2-1.3 times the repayment obligations. The bank limit of Rs 42 cr was utilised at 85% over the 12 months through December 2019, driven by high working capital requirements. The company has received support from promoters through unsecured loans over the last couple of years partially supporting when MIL's repayment obligations rose sharply. Current ratio was 1.11 times as on March 31, 2019.

Outlook: Stable

CRISIL believes MIL will continue to benefit from its established market position in the textile industry.

Rating Sensitivity factors

Upward Factors

- * Sharp improvement in the debt protection measures with interest coverage rising over 2 times on sustainable basis
- * Significant improvement in profitability and working capital management

Downward Factors

- * Profitability declining by over 100 basis points with continued working capital intensity
- * Any large capex or deterioration in working capital cycle affecting the liquidity

About the Company

MIL was established in 1991 as Mohit Fibers Pvt Ltd by Mr Sitaram Saboo. It was reconstituted as a public limited company in 1994, and got its current name in 1997. The company manufactures texturised yarn and grey fabrics at its unit in Kim village, Surat (Gujarat).

Key Financial Indicators

As on / for the period ended March 31		2019	2018
Revenue	Rs crore	192	158

Profit after tax	Rs crore	0.7	0.4
PAT margin	%	0.4	0.2
Adjusted debt/Adjusted networkth	Times	1.43	1.61
Interest coverage	Times	1.50	1.58

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	42	CRISIL BB/Stable
NA	Long Term Loan	NA	NA	Mar-2024	7.6	CRISIL BB/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	20	CRISIL BB/Stable
NA	Proposed Short Term Bank Loan Facility	NA	NA	NA	3.02	CRISIL A4+

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	72.62	CRISIL BB/Stable/ CRISIL A4+					13-12-18	CRISIL BB+/Stable	26-09-17	CRISIL BB+/Stable	CRISIL BB+/Stable
								21-09-18	CRISIL BB+/Stable (Issuer Not Cooperating)*			
Non Fund-based Bank Facilities	LT/ST							13-12-18	CRISIL A4+	26-09-17	CRISIL A4+	CRISIL A4+
								21-09-18	CRISIL A4+ (Issuer Not Cooperating)*			

All amounts are in Rs.Cr.

*Issuer did not cooperate; based on best-available information

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	42	CRISIL BB/Stable	Bank Guarantee	2.25	CRISIL A4+
Long Term Loan	7.6	CRISIL BB/Stable	Cash Credit	42	CRISIL BB+/Stable
Proposed Long Term Bank Loan Facility	20	CRISIL BB/Stable	Long Term Loan	12	CRISIL BB+/Stable

Proposed Short Term Bank Loan Facility	3.02	CRISIL A4+	Proposed Long Term Bank Loan Facility	16.37	CRISIL BB+/Stable
Total	72.62	--	Total	72.62	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Framework for Assessing Information Adequacy Risk](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings](#)

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