

January 07, 2025

## Mathura Fibres and Cotton Industries: Rating reaffirmed and removed from 'Issuer Non-Cooperating' category

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based limits	-	10.00	[ICRA]B+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
Long term – Fund based – Term loan	7.65	4.04	[ICRA]B+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
Long term – Unallocated	-	13.61	[ICRA]B+ (Stable); reaffirmed and removed from 'Issuer Not Cooperating' category
Long term – Fund based – Cash credit	20.00	-	-
<b>Total</b>	<b>27.65</b>	<b>27.65</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating action on the bank lines of Mathura Fibres and Cotton Industries (MFCI) considers an expected modest improvement in operational and financial performances in FY2025, following weak performance in FY2023 and FY2024, supported by extensive experience of the partners in the cotton ginning industry and improvement witnessed in 9M FY2025. The rating also considers the location specific advantage of MFCI's manufacturing unit in proximity to raw material sources in Telangana, which is one of the top cotton producing states in India.

The rating, however, remains constrained by the continued pressure on the top line with revenue declining by 13.6% in FY2024, following a 70.8% fall in FY2023. Besides, the fall in operating margins by 436 bps to 9.8% in FY2024 led to a weakening in coverage indicators, with total debt to operating profit and interest coverage ratios moderating to 9.6 times and 0.8 times, respectively in FY2024 compared to 8.7 times and 1.2 times, respectively in FY2023. Although, MFCI's earnings and coverage metrics are likely to improve in the current fiscal with increase in scale, the same are likely to remain moderate. Further, the rating factors in the vulnerability of the firm's profitability to adverse fluctuations in raw material prices (raw cotton), considering the inherently low value-added and seasonal nature of ginning operations and intense competition in the industry. Further, MFCI's operations also remain exposed to regulatory risks related to the minimum support price (MSP) set by the Government. The rating also factors in the risks inherent in partnership firms, including the risk of capital withdrawal by partners.

The Stable outlook on the long-term rating reflects ICRA's expectation that the entity is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of partners in cotton industry** – The promoters have a long experience of around three decades in the cotton ginning industry, which has helped them in establishing long associations with their suppliers and buyers in the industry.

**Location-specific advantage** – The firm benefits in terms of low transportation cost and easy access to raw cotton due to the strategic location of its plant in Adilabad, Telangana, an area of high cotton acreage and quality cotton crop.

### Credit challenges

**Weak financial risk profile** – MFCI's financial profile is characterised by modest leverage and coverage indicators due to the working capital intensive nature of operations. Besides, lower earnings resulted in weakening of its debt protection metrics with total debt to operating profits and interest coverage ratios weakening to 9.6 times and 0.8 times, respectively, in FY2024 from 8.7 times and 1.2 times, respectively, in FY2023. Further, its net cash accruals to total debt remained below 2% in the last five fiscals. While its revenues and earnings are likely to improve in the medium term, its coverage metrics are expected to remain moderate due to considerable debt repayment obligations.

**Profitability remains vulnerable to movement in prices of raw cotton, intense competition and fragmented industry structure** – MFCI's profitability remains exposed to fluctuations in raw material (raw cotton) prices, which are driven by various factors such as seasonality, climatic conditions, international demand and supply situation, and export policy. The firm is also exposed to regulatory risks with respect to the minimum support price (MSP) for cotton, which is set by the Government every year. Further, low value-added nature of the products and intense competition from other players in the fragmented cotton ginning industry limit MFCI's bargaining power and pricing flexibility, exerting pressure on margins.

**Risks associated with partnership constitution of the firm** – ICRA notes that MFCI is a partnership firm and any significant withdrawal of capital by the partners may adversely impact the firm's net worth and liquidity position. In this context, it has been noted that the partners have infused need-based fund in the firm in the past, which provides comfort.

### Liquidity position: Stretched

MFCI's liquidity position is likely to remain stretched owing to lower earnings and high working capital requirements in the business. Further, its average working capital utilisation in the past 12 months ending in November 2024 remained high at 98.5% of its sanctioned limit. Further, the entity has repayment obligations of Rs. 2.3 crore in FY2025. While the liquidity in the immediate future is expected to be supported by rationalising inventory holding, the firm's ability to scale up operations while effectively managing working capital cycle would remain crucial for its liquidity profile. ICRA expects lower cash flow generation from operations and sizable repayment obligations to necessitate infusion of fresh capital to maintain adequate liquidity position.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MFCI's rating if the firm significantly scales up its operations and profitability, leading to an improvement in its credit metrics, along with a better liquidity position.

**Negative factors** – Pressure on MFCI's rating could arise if there is a decline in revenues and profitability, or a stretch in the working capital cycle, which results in a further deterioration in its credit metrics and liquidity.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the firm.

## About the company

Mathura Fibres and Cotton Industries (MFCI) was started in 2013 as a partnership firm, and is involved in ginning and pressing of raw cotton to produce cotton bales. MFCI also has a facility for crushing cotton seeds to produce cotton seed oil and cake. The firm's unit is located in Adilabad (Telangana) and is owned and managed by Mr. Ganesh Mukkavar and Mrs. Vijaysri Mukkavar. The firm has a manufacturing facility with a ginning capacity of 2,600 quintal per day and installed pressing capacity of 500 bales per day.

## Key financial indicators (audited)

	FY2023	FY2024
Operating income	23.7	20.5
PAT	0.1	0.1
OPBDIT/OI	14.2%	9.8%
PAT/OI	0.6%	0.6%
Total outside liabilities/Tangible net worth (times)	4.2	2.7
Total debt/OPBDIT (times)	8.7	9.6
Interest coverage (times)	1.2	0.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA:

CRA	Rating Action	Rating Action	Date
India Ratings	IND B+/Stable (ISSUER NOT COOPERATING) /IND A4(ISSUER NOT COOPERATING)	Maintained in non-cooperating category	March 14, 2024

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating			Chronology of rating history for the past 3 years					
		FY2025			FY2024			FY2023		
		Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based	Long term	10.00	07-Jan-2025	[ICRA]B+ (Stable)	-	-	-	-	-	-
Term Loan	Long term	4.04	07-Jan-2025	[ICRA]B+ (Stable)	31-Jan-2024	[ICRA]B+(Stable) ISSUER NOT COOPERATING	07-Dec-2023	[ICRA]B+(Stable) ISSUER NOT COOPERATING	03-Nov-2022	[ICRA]B+ (Stable)
Unallocated	Long term	13.61	07-Jan-2025	[ICRA]B+ (Stable)	-	-	-	-	-	-
Cash Credit	Long term	-	-	-	31-Jan-2024	[ICRA]B+(Stable) ISSUER NOT COOPERATING	07-Dec-2023	[ICRA]B+(Stable) ISSUER NOT COOPERATING	03-Nov-2022	[ICRA]B+ (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based limits	Simple
Long term – Fund-based - Term Loan	Simple
Long term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund based limits	NA	NA	NA	10.00	[ICRA]B+ (Stable)
NA	Long term - Fund based -Term loan	FY2021-FY2022	NA	FY2025-FY2027	4.04	[ICRA]B+ (Stable)
NA	Long term - Unallocated	NA	NA	NA	13.61	[ICRA]B+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

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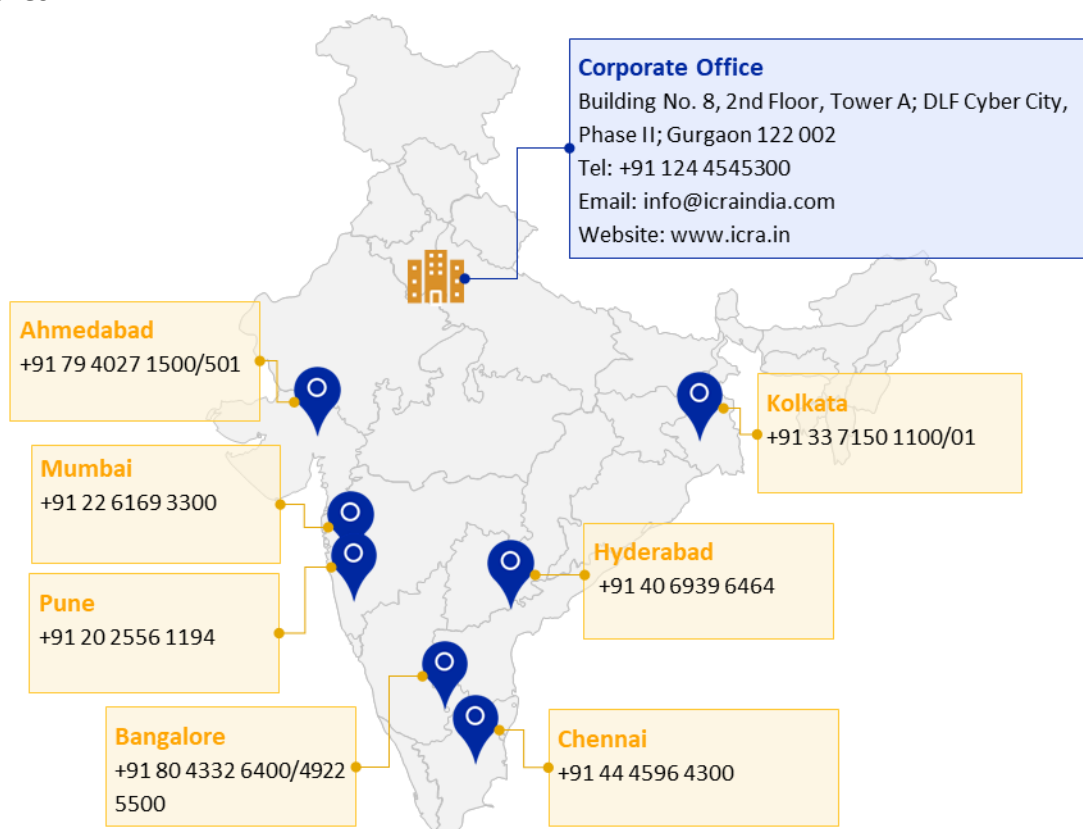


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