

November 03, 2022

Mathura Fibres and Cotton Industries: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund Based – WC	20.00	[ICRA]B+(Stable); assigned
Long Term Fund Based – Term Loan	7.65	[ICRA]B+(Stable); assigned
Total	27.65	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned to Mathura Fibres and Cotton Industries (MFCI or the firm) factors in the long experience of the partners in the cotton ginning industry and the location of the firm’s manufacturing plant in proximity to raw material sources in Telangana, which is one of the top cotton producing states in India. However, the rating remains constrained due to the firm’s weak financial profile, characterised by leveraged capital structure, stretched liquidity position and weak debt coverage indicators. 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), which is set by the Government.

The Stable outlook on the [ICRA]B+ rating reflects ICRA’s opinion that MFCI’s financial risk profile will remain stable with modest debt coverage metrics amid increasing repayment obligations, though supported by need-based infusion of funds by the partners. The firm is likely to continue to benefit from the experience of the partners in the cotton ginning industry and maintain its business position.

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 characterised by low profit margins, leveraged capital structure, and weak debt coverage metrics – MFCI’s profit margins have remained low over the years due to low value-added nature of its operations. The operating margin of the firm declined to 4.9% in FY2022 from 9.3% in FY2021 due to higher raw material costs during the fiscal. While the gearing improved to 3.9 times as on March 31, 2022 from 4.7 times as on March 31, 2021, aided by capital infusion of Rs. 0.6 crore by the partners and reduction in short-term debt, the capital structure remained leveraged. MFCI’s debt metrics also remained weak due to low profitability and high debt levels, as reflected by a total debt/OPBIDTA of 7.3 times in FY2022 (7.6 times in FY2021) and Net Cash Accruals/Total Debt remaining below 2% in the last five fiscals. Owing to rising repayment obligations towards Emergency Credit Line Guarantee Scheme (ECLGS) loans availed to tide over pandemic-led liquidity pressure, the firm’s debt coverage metrics are expected to remain weak.

Profitability remains vulnerable to movements in prices of raw cotton – 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.

Intense competition and fragmented industry structure – 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, thereby 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 ensured need-based fund infusion in the firm in the past, which provides comfort.

Liquidity position: Stretched

MFCI’s liquidity position is stretched, as reflected in marginal cash and bank balances of less than Rs. 0.1 crore as of March 2022, and consistently high utilisation of its fund-based working capital facilities in the last 12 months. ICRA notes that the firm has sizeable repayment obligations in the current and upcoming fiscals for its term borrowings. While the liquidity in the immediate future is expected to be supported by liquidation of inventory at healthy realisations, the firm’s ability to scale up operations while effectively managing working capital cycle will remain crucial for its liquidity profile, going forward. ICRA expects inadequate cash flow generation from operations and increasing 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, and achieves 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	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the firm

About the company

Incorporated in 2013, Mathura Fibres and Cotton Industries (MFCI) is a partnership firm involved in ginning and pressing of raw cotton to produce cotton bales and cotton seeds. 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 Mukkawar and Mrs. Vijaysri Mukkawar. 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)

	FY2021	FY2022
Operating Income (Rs. crore)	44	81
PAT (Rs. crore)	0.16	0.19
OPBDIT/OI (%)	9.3%	4.9%
PAT/OI (%)	0.4%	0.2%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	4.1
Total Debt/OPBDIT (times)	7.8	7.3
Interest Coverage (times)	1.1	1.1

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+(ISSUER NOT COOPERATING) / IND A4(ISSUER NOT COOPERATING)	Migrated to non-cooperating category	March 23, 2022

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 03, 2022	-	-	-
1 Long term Fund Based – WC	Long term	20.00	20.00	[ICRA]B+(Stable)	-	-	-
2 Long Term Fund Based – Term Loan	Long term	7.65	7.44	[ICRA]B+(Stable)	-	-	-

*Outstanding as on May 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term Fund Based – WC	Simple
Long Term Fund Based – Term Loan	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term Fund Based – WC	-	12%	-	20.00	[ICRA]B+(Stable)
NA	Long Term Fund Based – Term Loan	FY2021-FY2022	8%	FY2024-FY2025	7.65	[ICRA]B+(Stable)

Source: MFCI

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

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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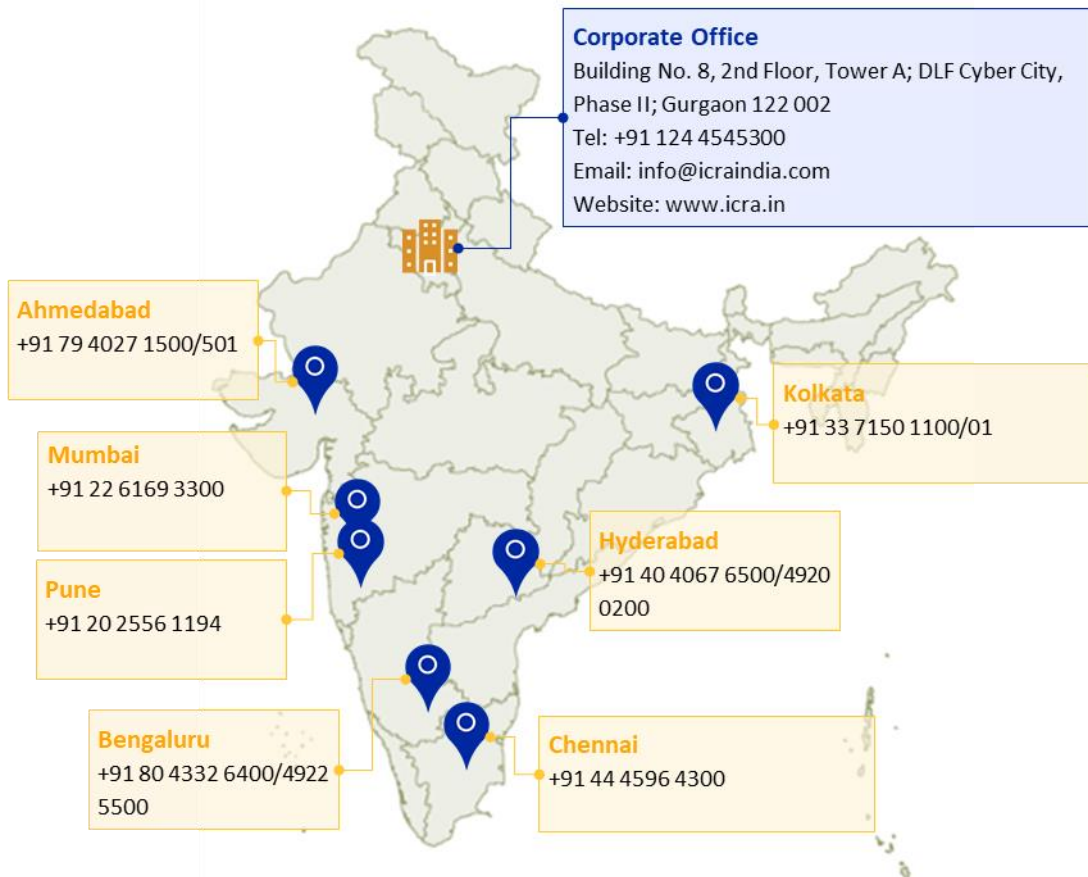
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