R.M. MOHITE INDUSTRIES LIMITED

Rating

A long term rating of [ICRA]BB+ (pronounced as ICRA double B plus) has been assigned to the Rs. 98.38 crore[1] fund-based bank facility and a short term rating of [ICRA]A4+ (pronounced as ICRA A four plus) has been assigned to the Rs. 9.06 crore non fund-based bank facility of R.M. Mohite Industries Limited (RMMIL) [2]. The outlook assigned on the long term rating is "Stable".

Key Financial Indicators

		2009-10	2010-11	2011-12
		Audited	Audited	Un-audited
Net Sales	Rs. Cr	106.3	136.2	106.5
Operating Income (OI)	Rs. Cr	107.4	136.6	106.5
OPBDITA	Rs. Cr	20.0	19.5	23.3
Profit After Tax (PAT)	Rs. Cr	4.0	4.3	3.9
Net Cash Accruals	Rs. Cr	10.1	8.4	9.1
Total Debt (TD)	Rs. Cr	119.2	119.1	101.5
Tangible Net worth (TNW)	Rs. Cr	56.6	58.6	62.4
OPBDITA/OI	%	18.6%	14.3%	21.9%
PAT/OI	%	3.8%	3.1%	3.6%
PBIT/Average (TD+TNW+DTL)	%	11.2%	9.4%	10.2%
Total Gearing	times	2.1	2.0	1.6
OPBDITA/Interest & Finance Charges	times	1.9	1.8	1.8
(GCF+ Interest)/Interest	times	1.2	2.0	2.7
NCA/Total Debt	%	8.5%	7.0%	9.0%
Total Debt/OPBDITA	times	6.0	6.1	4.4
Debtor days	days	116	87	85
Inventory days	days	87	83	97
Creditor days	days	4	5	9

Note: Amounts in Rs. Crore; OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Amortisation, Interest and Tax PAT: Profit after Tax PBIT: Profit before Interest and Tax; DTL: Deferred Tax Liability; GCF: Gross Cash Flows; NCA: Net Cash Accruals;

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[1] 100 lakh = 1 crore = 10 million
[2] For complete rating definition, please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

Key Rating Considerations

Credit Strengths

- Established presence of the promoters in the textile industry
- Proximity to cotton growing area ensures uninterrupted supply of raw material; also lower logistic costs due to proximity to Mumbai port
- Increase in operational efficiency due to use of captive hydro power with assured uninterrupted supply leading to improvement in operating margins in FY 2012

Credit Challenges

- Revenues exposed to highly volatile and cyclical nature of textile industry; steep decline in prices has led to revenue de-growth in FY 2012
- Working capital intensive nature of the business due to bulk purchase of cotton during the harvesting season and stocking for lean season
- High raw material inventory poses commodity price fluctuations risk, however procurement being 100% order backed mitigates the risk to a certain extent
- Leveraged capital structure on account of high working capital intensity
- Regulatory risk in the form of changing government policies with respect to export of cotton and fixing of Minimum Support Price (MSP)

Rating Rationale

The ratings reflect the extensive experience of the promoters in the business of textiles and locational advantage with respect to proximity to ports and availability of raw materials. ICRA also notes the improvement in operating profit margins backed by captive hydro power generation. The ratings, are, however constrained by susceptibility of the revenues to the fluctuations in the prices of raw material, the working capital nature of the business on account of high levels of inventory maintained leading to a leveraged capital structure. The ratings also take into consideration the vulnerability of realizations and profits to the regulatory norms of the government relating to export of cotton and cotton yarn.

Business profile

Incorporated in 1991, R.M. Mohite Industries is a public limited company involved in the business of manufacturing and exporting of 100 per cent cotton yarn, of counts ranging from 20 to 100 and grey knitted fabrics. Cotton yarn accounted to 70% of the total sales in FY 2011 while the balance is accounted for by sale of cotton waste and knitted fabric.The company's plant has a capacity of 10,500 MT per annum. The major raw material for RMMIL is raw cotton, which is sourced mainly from Maharashtra and Madhya Pradesh. Margins of the company remain susceptible to the fluctuations in the prices of raw cotton; however, procurement being 100% order backed mitigates the risk to some extent. The company primarily caters to the domestic market with only 30% of sales accounting for exports in FY 2011. The export sale comprises of direct sales and sales through merchant export. The major export destinations are Bangladesh and China. RMMIL's operations are also susceptible to the regulatory norms of the government relating to export of cotton and cotton yarn.

The company has set up a captive hydro power generating unit of 10 MW in 2011 at Radhanagari, Maharashtra. The project was setup at a project cost of Rs. 60.00 crore approximately. The unit has resulted in uninterrupted and sufficient supply of power for its textile unit. This initiative has helped RMMIL to reduce its dependence on external source for power consumption leading to zero power cost and increased margins.

Financial Profile

Revenue and Profitability: RMMIL's operating income (OI) has grown at a compounded annual growth rate (CAGR) of 6% during the period 2007 to 2012. However, OI has been highly volatile given the commoditised nature of yarn prices impacting realizations. The company has witnessed strong growth in its operating income in FY 2011 (~28%) despite quantitative restrictions imposed by the Government of India on export of cotton yarn. Growth in OI in FY 2011 is primarily on account of increase in average price realization per kilogram. However, substantial decline in cotton yarn realizations have impinged the revenues in FY 2012 as volumes remained flat. During FY 2011, there was steep fall in operating profit margin (OPM) due to high raw material cost as a percent of sales which could not be passed on. However, margins have improved in FY 2012 to 21.9% as against 14.3% in FY 2011 on account of in house consumption of captive power from the unit set up at Radhanagari. Net profit margin (NPM) has improved in line with OPM and stood at 3.60% in FY 2012.

Capital structure and liquidity: Total debt of Rs.101.46 crore primarily consists of Rs. 40.00 crore working capital borrowings from banks, Rs. 51.67 crore term loans partly to fund the hydro power project at Radhanagari and partly for setting up a weaving unit at Kagal. Total borrowings also include interest free unsecured loans from the directors and shareholders. Gearing levels have been high as on 31st March, 2012 at 1.63 times, though it has declined marginally over previous fiscal as a result of repayment of term loans. In FY 2011, the company has sold out its weaving unit and the fund generated from the sale of the unit would be utilized towards repayment of term loans which would enable marginal improvement in capital structure and coverage indicators in the current fiscal. With higher operating profitability, coverage metrics have improved during FY 2012 though they still remain satisfactory. RMMIL's working capital intensity has remained high owing to high levels of inventory maintained, stretched debtors along with stringent payable terms. However, the risk of bad debts stands reduced to an extent as the company receives 100 % advance in case of sale to merchant exporters and 20 % advance in case of sale to domestic customers.

About the Company

R M Mohite Industries Limited (RMMIL) is a public limited company, incorporated in 1991 and has its registered office and manufacturing facilities in Kolhapur, Maharashtra with an installed capacity of 34,896 spindles. The company is listed on the Bombay Stock Exchange. RMMIL was originally incorporated by Mr. Ram Chandra Maruti Mohite and his three sons in 1991 as a family unit. From 1991 onwards till 1995, the company was running as a family unit, however in 1995 there was a split in the business and Mr. Shivaji Ramchandra Mohite continued with the textile segment whereas the infrastructure was taken over by Mr. Ram Chandra Maruti Mohite. The company is engaged into manufacturing and exporting of 100 per cent cotton yarn of counts ranging from 20 to 100 and grey knitted fabrics.

Recent Results:

As per the unaudited results of 2011-2012, the company has reported a net profit of Rs. 3.86 crore on an operating income of Rs. 106.52 crore.

May 2012

Annexure I: Rating

Instrument	Amount (In Rs. Crore)	Rating Action
LT Fund Based Limits (Cash Credit)	40.00	[ICRA]BB+ (Stable) assigned
Term Loans	58.38	[ICRA]BB+ (Stable) assigned
ST Non Fund Based Limits (Bank Guarantee)	9.06	[ICRA]A4+ assigned

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