



## Press Release

### MNR Cottons Private Limited

December 30, 2020

#### Ratings

Instrument/Facility	Amount (Rs.in Crore)	Ratings	Rating Action
Long Term Bank Facilities	13.52	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities	0.80	IVR A4 (IVR Single A Four)	Assigned
<b>Total</b>	<b>14.32</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of MNR Cottons Private Limited takes into account its experienced management with long track record of operations, proximity to raw materials and moderate capital structure and debt protection metrics. Further, the ratings also derive comfort from its sustained performance in H1 FY21. These rating strengths partially offset by moderation in total operating revenue in FY20 and **intense competition prevalent in the textile industry and availability of other substitutes.**

#### Key Rating Sensitivities:

##### Upward Factor:

- Sharp increase in total income with significant improvement in margins and cash accruals on a sustained basis
- Improvement in capital structure, debt protection metrics and liquidity

##### Downward factor:

- Moderation in operating income or profitability and/or cash accrual, any further stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.50x
- Deterioration in DSCR metrics to lower than current levels



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Experienced management with long track record of operations**

MNR Cottons Ltd is led by experienced team under the leadership of Managing director M. Anantha Reddy, who was actively involved in Dept. of Textiles, Govt. of Telangana in drafting and framing of textile policies and has relevant industry experience of more than a decade, over the years the management under his leadership have establishing export markets and maintained healthy relationships with customers and suppliers. They are being assisted by a team of qualified and experienced staff who look after finance, production, and quality control, marketing and general administration.

- **Proximity to Raw Materials**

The major raw material consumed is Cotton. The manufacturing facility of the Company is situated at the close proximity with the rich cotton growing belt of various districts located in Telangana. It provides easy access to raw material and thus leads to logistical efficiency.

- **Moderate capital structure & debt protection metrics**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing stood at 0.77x in FY20 and remained at same level as FY19. The net worth stood healthy at INR of 15.41 crore as on March 31, 2020 and increased from INR 15.21 crore as on March 31, 2020 due to accretion of profits in the business. Further, total indebtedness of the company as reflected by TOL/TNW remained moderate at 1.08x as on March 31, 2020 (TOL/TNW at 1.21x in FY19). The debt protection metrics remained strong, with interest coverage ratio at 3.79x in FY20.

#### Key Weaknesses

- **Moderation in total operating revenue**

The sales of the company declined by ~15.59% in FY20 as due to Covid-19, majorly due to decline in prices of cotton the main raw material to manufacture cotton yarn, earlier the company used to send 21 count the production of which is 14tons/day whereas because of the drastic cut down in the prices the value of the turnover has become less in FY20 also the company posted no sales after March 22, 2020 the day when Janta curfew was announced



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till May end and the sales were revived in June 2020. As the lockdown disrupted the global market much before as compared to India, the company suffered the most in Q4 FY20. The company registered export sales at 42% of total revenue in FY19 which came down to 13% of total revenue in FY20 due to Covid-19 led disruptions, as the company used to export ~80% of its cotton yarn to China and the remaining major portion to Taiwan because of Covid led disruptions the company faced squeeze in demand from these countries.

- **Intense competition prevalent in the textile industry and availability of other substitutes**

The company is exposed to intense competition prevalent in the highly fragmented Indian textile industry and faces stiff competition from both organised and unorganised players. For the competitive landscape, the company faces stiff competition in the export market. Further, the margins of the company are under continuous threat of seasonal product cycle.

### **Analytical Approach: Standalone**

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity - Adequate**

The liquidity position of the company is expected to remain adequate marked by expected GCA of ~INR 3.18 Cr – ~INR 3.55 Cr from FY21-FY23, as against scheduled debt repayments of INR 0.60 Cr – INR 1.60 Cr in the same period. Further, its bank limits remained moderately utilized to the extent of ~62% during the past 12 months ended October 2020 indicating moderate liquidity buffer and cash and bank balances stood at INR 0.61 Cr in FY20 indicating moderate headroom for any capex. The current ratio stood at 0.89x in FY 20 and remained below unity.

### **About the Company**

MNR cottons was established in July 2013 and is located in Mahabubnagar, Near Hyderabad, Southern part of India. , which is well connected by Rail & Air Networks (100 KMS from RGIA, SHAMSHABAD Airport). MNR Cottons Ltd is engaged in cotton yarn manufacturing and has



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well equipped infrastructure and machinery. They are into core manufacturing of 100% cotton yarn. They are an emerging player in the international and domestic yarn market with exports constituting roughly eighty percent of its total revenues. The company manufactures premium quality cotton yarn for hosiery and weaving.

### Financials: Standalone

(Rs.in crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	74.95	63.26
EBITDA	6.50	4.46
PAT	1.74	0.61
Tangible Net worth	15.21	15.41
Adjusted Net worth	15.21	15.41
EBITDA Margin (%)	8.67	7.06
PAT Margin (%)	2.31	0.96
Overall Gearing Ratio (x)	0.77	0.77

\*As per Infomerics Standards

**Status of non-cooperation with previous CRA:** ICRA moved the rating to ISSUER NOT COOPERATING category vide its press release dated on July 29, 2020 due to unavailability of information

**Any other information:** Nil

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs.in Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	OCC	Long Term	10.00	IVR BB/Stable	-	-	-
2.	TL	Long Term	0.52	IVR BB/Stable	-	-	-
3.	COVID TL	Long Term	1.00	IVR BB/Stable	-	-	-



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4.	GECLS TL	Long Term	2.00	IVR BB/Stable	-	-	-
5.	BG	Short Term	0.80	IVR A4	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.in Crore)	Rating Assigned/ Outlook
OCC	-	-	-	10.00	IVR BB/Stable
TL	-	-	Dec 2021	0.52	IVR BB/Stable
COVID TL	-	-	May 2024	1.00	IVR BB/Stable
GECLS TL	-	-	June 2024	2.00	IVR BB/Stable
BG	-	-	-	0.80	IVR A4