



June 19, 2020

To,
National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G-Block,
Bandra-Kurla Complex,
Bandra (E), Mumbai – 400 051

Symbol: MHHL

Sub: Intimation under Regulation 30 of SEBI (LODR) Regulations, 2015- Credit Rating

Respected Sir/Madam,

Pursuant to provisions of Regulation 30 of SEBI (LODR) Regulations, 2015, we hereby inform that the rating committee of India Ratings & Research (Ind-Ra) has assigned additional bank facility a Long-term rating of 'Provisional IND BBB' with a Stable Outlook while affirming the existing ratings as follows:

Facilities	Amount (Rs. in million)	Credit Rating	
		Existing	Revised
Long-term/Issuer Rating	-	IND BBB/Stable	IND BBB/Stable
Long-term/Short- term/ Fund-Based Limits	300	IND BBB/Stable/IND A3+	IND BBB/Stable/IND A3+
Long-term/Term Loan	200	IND BBB/Stable	IND BBB/Stable
Long-term/Proposed fund-basedlimit	100	-	Provisional IND BBB/Stable

The rating rationale issued by the rating agency is enclosed herewith and marked as Annexure I.

Kindly take the above on your records and oblige us.

Yours faithfully,
FOR
MOHINI HEALTH & HYGIENE LIMITED

Sd/-
Arnika Jain
Company Secretary

India Ratings Assigns Mohini Health & Hygiene's Additional Bank Facility 'Provisional IND BBB'/Stable; Affirms Existing Ratings

18

JUN 2020

By Trishita Das

India Ratings and Research (Ind-Ra) has assigned Mohini Health & Hygiene Limited's (MHHL) additional bank facility a long-term rating of 'Provisional IND BBB' with a Stable Outlook while affirming the existing ratings as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term Issuer Ratings	-	-	-	-	IND BBB/Stable	Affirmed
Fund-based limits	-	-	-	INR300	IND BBB/Stable/IND A3+	Affirmed
Term loan	-	-	FY24	INR200	IND BBB/Stable	Affirmed
Proposed fund-based limit*	-	-	-	INR100	Provisional IND BBB/Stable	Assigned

*The ratings are provisional and shall be confirmed upon the sanction and execution of the loan documents for the above facility by MHHL to the satisfaction of Ind-Ra.

Analytical Approach: Ind-Ra continues to take a consolidated view of MHHL and its 97% subsidiary, Vedant Kotton Private Limited (VKPL), collectively referred to as the Mohini Group, in view of the strong operational and moderate strategic linkages between the entities, with the supply made by VKPL being integral to the parent's core business operations. However, MHHL had not extended any tangible support to VKPL till 31 March 2020.

KEY RATING DRIVERS

Improving Credit Metrics: MHHL's moderate consolidated credit metrics improved in FY19. The interest coverage (operating EBITDA/gross interest expense) improved to 3.73x in FY19 (FY18: 2.62x) due to an improvement in EBITDA to INR201.38 million (INR174.00 million). The net leverage (total adjusted net debt/operating EBITDAR), too, improved to 2.50x in FY19 (FY18: 3.07x) due to the scheduled repayment of existing loans and bulk payments made to banks from the initial public offer (IPO) proceeds. On a standalone basis, MHHL's interest coverage stood at 3.30x in FY19 (FY18: 2.29x) and net leverage at 2.46x (3.06x).

In FY19, the group's total debt comprised working capital loans along with a few long-term loans. In FY18, a major portion of the long-term loans had been availed for funding the group's capex to increase the installed production capacity of bleach cotton bales to 9,000 million tonnes (MT) per month from 4,500MT per month; commercial operations with the increased capacity commenced in FY18.

Diversified Product Profile; Extensive Experience of Promoters: MHHL is engaged in the recycling of cotton waste (though the company shifted this division to VKPL in April 2019) and the manufacturing of absorbent cotton and value-added products. The diversified revenue streams are likely to benefit the company's business risk profile over the medium term. The promoters of the company have an experience of nearly a decade in the same line of business.

Rise in Average EBITDA Margins: The consolidated EBITDA margins expanded to 14.38% in FY19 (FY18: 10.38%) owing to the increased share of high-margin products such as absorbent bleach cotton, which fetches premium prices in overseas markets. The company's return on capital employed stood at 13.13% in FY19 (12.45%). MHHL's main cost driver is raw material, i.e. recycled cotton.

Ind-Ra estimates the company's topline to have improved in FY20 while maintaining margins at FY19's level. The agency further expects the company to maintain its EBITDA margins over the near-to-medium term owing to the introduction of new products (N-95 masks, hand sanitizers, gloves, etc) and increase in the proportion of high-margin products. Further, Ind-Ra expects the company to benefit from lower cotton prices in 2QFY21 (May 2020: INR95/kg-95/kg) owing to low demand and high holding levels at the Cotton Corporation of India. However, the agency expects only a short-term gain from the lower cotton prices as some of the inventory is expected to be exported, given the advantage of lower prices and rupee depreciation. On a standalone basis, the EBITDA margin improved to 16.14% in FY19 (FY18: 11.76%).

Revenue Declined in FY19: The Mohini Group's revenue declined 16.48% yoy to INR1,400.23 million in FY19 due to MHHL's decision to reengineer its product portfolio by hiving off its cotton processing division to VKPL. The scale of operations continues to be medium.

Over 90% of the consolidated revenue comes from the exports of absorbent bleach cotton to European countries, Russia, Turkey, and South America. The company plans to introduce new products in the health and hygiene segment in FY21; 29 new products are planned to be added, of which five will be manufactured in-house. MHHL plans to enhance its focus on the domestic market (specifically medical-consumable market) and has formed a marketing team of 20 employees towards this purpose.

On a standalone basis, MHHL's revenue declined 14.14% to INR1,267.63 million in FY19. The company registered revenue of INR575.95 million in 1HFY20. VKPL is engaged in the business of processing raw cotton and sells its products in the domestic market only. Its scale of operations is small, as indicated by the revenue of INR205.93 million in FY19 (FY18: INR362.82 million). The company incurred an EBITDA loss of INR2.23 million in FY19 (FY18: INR0.28 million). VKPL is a debt-free company with no future arrangement for debt infusion.

Liquidity Indicator – Adequate: MHHL's average utilisation of fund-based limits was 69.70%% for the 12 months ended March 2020. Its cash flow from operations (CFO) turned positive at INR53.47 million in FY19 (FY18: negative INR121.72 million) on account of the improvement in operating profitability and better working capital management. Its free cash flow also turned positive at INR3.98 million in FY19 (FY18: negative INR178.10 million) on the back of positive CFO. The company's cash and cash equivalents stood at INR7.25 million in FY19 (FY18: INR23.81 million). The company had a repayment obligation of INR54.154 million in FY20. In the near-to-medium term, the company does not have any major capex plans.

The net working capital cycle was moderate between 91-112 days during FY16-FY19, with major funds blocked in the form of debtors due to the long credit period granted to its dealers. The inventory cycle of 30-55 days is mostly order-backed. In FY19, the net working capital cycle elongated to 112 days (FY18: 91 days) due to an increase in inventory days to 57 days (34 days). The debtors and creditors days in FY19 remained almost in line with the FY18 levels.

The company launched its IPO on the National Stock Exchange in 2018 and raised INR265.23 million. Of this, INR30 million was directed towards IPO expenses and the rest was used to repay a few loans from the scheduled bank; some amount was retained for funding working capital requirements. Also, 80%-90% of the export revenue that is derived from China, Germany, Greece, and Italy is backed by letters of credit. The company sells in the domestic market through a network of 70-80 dealers and extends a credit period of 45-60 days to customers. Against this, it gets credit of 20-30 days from suppliers on an average for other material such as packing material, stores and spares, etc.

RATING SENSITIVITIES

Positive: A substantial improvement in the revenue and the credit metrics, with the net leverage reducing below 2x, on consolidated and sustained bases, will be positive for the ratings.

Negative: A decline in the profitability, leading to deterioration in the credit metrics, with the net leverage exceeding 3.5x, on consolidated and sustained bases, will be negative for the ratings.

COMPANY PROFILE

Incorporated in 2009 in Indore and promoted by Bansal family, MHL manufactures and exports absorbent bleach cotton, surgical cotton and other value-added products. The company has been listed on the National Stock Exchange since March 2018. VKPL is engaged in the processing of raw cotton and selling in domestic markets.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR million)	1,400.23	1,677
Operating EBITDA (INR million)	201.38	174
EBITDA margin (%)	14.38	10.4
Interest coverage (x)	3.73	2.6
Net leverage (x)	2.50	3.1
Source: Ind-Ra, Mohini Group		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook	
	Rating Type	Rated Limits (million)	Rating	4 February 2020	8 January 2019
Issuer rating	Long-term	-	IND BBB/Stable	IND BBB/Stable	IND BBB/Stable
Fund-based-limits	Long-term/Short term	INR300	IND BBB/Stable/IND A3+	IND BBB/Stable/IND A3+	IND BBB/Stable/IND A3+
Term loan	Long-term	INR200	IND BBB/Stable	IND BBB/Stable	IND BBB/Stable
Proposed fund-based limit	Long-term	INR100	Provisional IND BBB/Stable	-	-

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Applicable Criteria

[Corporate Rating Methodology](#)

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