

Mangalam Ventures Limited (Revised)

November 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	12.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	2.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	14.00 (Rs. Fourteen Crore Only)		

Details of facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Mangalam Ventures Limited (MVL) continue to derive strength from the long track record of operations with experienced promoters, moderate and improving profit margins, comfortable capital structure/debt coverage indicators and adequate liquidity position.

The above rating strengths are, however, tempered by modest scale of operations, working capital intensive nature of operations, customer & supplier concentration risk, susceptibility of profit margins to volatility in foreign exchange rates, and presence in competitive and fragmented industry.

Key Rating Sensitivities
Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in the total operating income exceeding Rs.125 crore with tangible net worth base exceeding Rs.35 crore on a sustained basis
- Improvement in its profit margins with PBILDT margin over 15% and PAT margin over 8% amidst intense competition from the market on a sustained basis
- Diversification of the customer and supplier base

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure with overall gearing exceeding a unity level on a sustained basis
- Deterioration in the debt coverage indicators with interest coverage reaching below 3 times and total debt to GCA level exceeding 5 times on a sustained basis
- Deterioration in the liquidity profile with collection and inventory period exceeding 60 days and 120 days respectively along with utilization of the fund based working capital limits exceeding 80% on a sustained basis

Detailed description of the key rating drivers:
Key Rating Strengths
Long track record of operations with experienced promoters

MVL derives established track record of operations with more than two decades of existence in the readymade garments industry. The current directors of the company Mr. Vinod Ahuja, Mr. Sharat Jain and Mr. Ramakanth Shivasamb Hegde are professionals and having average experience of more than two decades in the industry and looks after the overall operations of the company. Over the years of existence in the market, the directors have established strong marketing connects in the market. Moreover, the directors are also assisted with experienced second line of management having reasonable experience in their respective fields.

Moderate albeit improved profitability margins

During FY21, the PBILDT margin of the company has improved by 420 bps (from 7.02% in FY20 to 11.23% in FY21) on account of decrease cost of raw material consumption from 44.41% of ToI in FY20 to 42.26% of ToI in FY21, in absolute term it is decreased by Rs.1.61 crore (from Rs.28.73 crore in FY20 to Rs.27.12 crore in FY21) along with other expenses by Rs.1.34 crore (from Rs.4.03 crore in FY20 to Rs.2.69 crore in FY21). Further, PAT margin has also improved by 308 bps to 6.64% in FY21 (Vis-à-Vis 3.56% in FY20) on account of decrease in depreciation cost & interest expenses on y-o-y basis during the year.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Comfortable capital structure and moderate debt coverage indicators

MVL's capital structure continued to remain comfortable; albeit some moderation witnessed as on March 31, 2021. The overall gearing moderated to 0.38x as on March 31, 2021 (vis-à-vis 0.28x as on March 31, 2020), which is primarily on account of increase in working capital utilization by Rs.4.43 crore (from Rs.5.33 crore as on March 31, 2020 to Rs.9.77 crore as on March 31, 2021). On the other hand, the tangible networth has also increased by 16.17% from Rs.22.11 crore as on March 31, 2020 to Rs.26.37 crore as on March 31, 2021. Furthermore, led by improved profitability margins the debt coverage indicators remained stable despite higher debt as indicated by TD/GCA of 1.87x in FY21 (vis-à-vis 1.84x in FY20) and interest coverage improving to 14.67x in FY21 (vis-à-vis 8.36x FY20).

Key Rating Weaknesses

Modest scale of operations

Total operating income (TOI) of the company has almost remained stagnant at Rs.64.17 crore in FY21 (as against Rs.64.69 crore in FY20) which was primarily due to decrease in orders from its existing customers in the overseas markets owing to COVID-19 pandemic effect. The orders were postponed by the overseas customers along with lockdown imposed by the government leading to low revenue generation during the period of March 2020 to July 31, 2020. During 5MFY22 (refers to the period April 1, 2021 to August 31, 2021, the company has recorded net sales of Rs.40.83 crore (vis-à-vis Rs.61.92 crore during 11MFY20 (refers to the period April 1, 2020 to February 28, 2021). Further, the company has order book position of Rs.38.71 crore as on September 15, 2021 (equivalent to USD 52,70,532.39 converted @ INR 73.44 per USD prevailing as on 15/9/2021). The tangible networth of the company also remained moderate albeit increased on y-o-y basis led by accretion of profits to reserve; it stood at Rs.26.37 crore as on March 31, 2021 (vis-à-vis Rs.22.11 crore as on March 31, 2020).

Customers and supplier concentration risk

During FY21 top 5 customers contributed 96.15% (vis-à-vis 97.24% in FY20) of TOI. Out of the above five, one Canada based customer namely Mark's Work Warehouse Ltd., constituted 87.44% in FY21 (vis-à-vis 87.14% in FY20 including INA International subsidiary of Mark's Work Warehouse Ltd.). However, the clientele of MVL continues to be renowned & includes Mark's Work Warehouse Ltd., (Canada) Woolrich Inc., (Canada) Bass Pro (USA) and Sportif USA Inc. and others thereby indicating customer concentration risk.

Similarly, during FY21, top 5 suppliers contributed to 77.47% (vis-à-vis 77.64% in FY20) of the total raw materials namely yarn & fabrics. Out of the above five, three suppliers namely Chenab Textile Mills, Grospinz Fabz (Punjab) Ltd., Delhi Yarn Agencies, constituted 59.69% in FY21 (vis-à-vis 60.22% in FY20) of total purchases. However, due to better quality of fabrics MVL continues to source primarily from them to meet the requirement of its branded customers.

Working capital intensive nature of operations

The operations of the company continue to be working capital intensive due to majority funds blocked in inventory. Inventory holding remained high at 66 days in FY21 (vis-à-vis 74 days in FY20) primarily on account of procurement of raw material in advance to avoid price fluctuation in raw materials and also processing time required to complete the bulk quantity orders received from export market. Further, the collection period has deteriorated to 39 days in FY21 (vis-à-vis 28 days in FY20) due to delay in payment from its customers due to impact of COVID-19. On the other hand, average creditor's period has also remained low at 27 days in FY21 (vis-à-vis 24 days in FY20, due to prompt payment policy adopted by the management to avail cash discounts from its suppliers. Hence, the working capital cycle remained high at 78 days in FY21 (vis-à-vis 78 days in FY20). However, the working capital requirements are primarily met through internal accruals and hence, the average utilization of working capital limit stood low at 50% during past twelve months ending September 30, 2021 (as against 48.45% during past 12 months ended December 31, 2019). Further, net working capital (NWC) as % of Total capital employed (TOCE) stood at 49.52% in FY21 (as compared to 49.38% in FY20).

Susceptibility of profit margins to the volatility in the foreign exchange

MVL continues to earn significant portion of revenue from exports, hence, its margins remain exposed to volatility in foreign exchange rate. However, the risk is partially mitigating due to hedging policies adopted by the company through booking forward contract at the time of the confirmation of the orders thereby mitigating the risk to a greater extent. Nevertheless, the foreign exchange fluctuation risk continues to persist due to timing differences. During FY21, MVL booked forex gain of Rs.0.68 crore (as compared to forex gain of Rs.2.11 crore in FY20).

Presence in highly competitive and fragmented industry

Owing to presence of large numbers of players operating in the manufacturing and exports of readymade garment industry with low degree of product differentiation, the industry remained highly competitive and fragmented in nature limiting bargaining power of players of like MVL. Moreover, the increase in the competition from other emerging markets in the Asia also puts additional pressure on the revenue and profitability.

Liquidity: Adequate

The liquidity position of the company remained adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations and modest free cash & bank balance of Rs.4.20 crore as on March 31, 2021. The company has not planned for

any capex during next two years and also has no scheduled repayment obligation. The average utilization of the fund based working capital limit stood at 50% and letter of credit utilization is around 30% during past 12 months (from October 1, 2020 to September 30, 2021). Furthermore, the current ratio stood comfortable at 1.73x while the quick ratio stood moderate at 1.12x as on March 31, 2021 (vis-à-vis 1.74x and 0.89x respectively as on March 31, 2020). Cash flow from operating activities stood positive of Rs.1.65 crore in FY21 (vis-à-vis positive of Rs.6.90 crore in FY20).

Analytical Approach: Standalone

Applicable criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[Rating Methodology for Cotton Textile Manufacturing](#)

[CARE's Methodology for Short-term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1993, Mangalam Ventures Limited (MVL) is currently managed by Mr. Vinod Ahuja, Mr. Sharat Jain and Mr. Ramakanth Shivasamb Hegde and engaged in the manufacturing and export of readymade knitted garments primarily to Canada, and USA. Furthermore, the company manufactures & supplies its products includes Knitwear Garments, Cotton Knitted Fabrics, Cotton Knitted Processed Fabrics. MVL has its manufacturing facility is located at Faridabad, Uttar Pradesh (having installed capacity of 21 lakh pieces per annum as on March 31, 2021 wherein inhouse dyeing, cutting, stitching and packaging activities are being carried out by the company. The company is approved by Worldwide Responsible Accredited Production (WRAP) and Business Social Compliance Initiative (BSCI) and also accredited from Control Union Certifications for producing 100% Organic and Organic blend garments.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	5MFY22
Total operating income	64.69	64.17	40.83
PBILDT	4.54	7.20	NA
PAT	2.31	4.26	NA
Overall gearing (times)	0.28	0.38	NA
Interest coverage (times)	8.36	14.67	NA

A: Audited, 5MFY22 (refers to the period April 1, 2021 to August 31, 2021)

Current year performance: Covered above.

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	0.50	CARE A3
Fund-based - ST-Foreign Currency Demand Loan		-	-	-	1.50	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (23-Mar-21)	1)CARE BBB-; Stable (25-Mar-20)	1)CARE BBB-; Stable (27-Mar-19)
2	Non-fund-based - ST-BG/LC	ST	0.50	CARE A3	-	1)CARE A3 (23-Mar-21)	1)CARE A3 (25-Mar-20)	1)CARE A3 (27-Mar-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (23-Mar-21)	1)CARE BBB-; Stable (25-Mar-20)	1)CARE BBB-; Stable (27-Mar-19)
4	Fund-based - ST-Foreign Currency Demand Loan	ST	1.50	CARE A3	-	1)CARE A3 (23-Mar-21)	1)CARE A3 (25-Mar-20)	1)CARE A3 (27-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities – Not applicable**Annexure 4: Complexity level of various facilities rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Foreign Currency Demand Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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