Mahalaxmi Rubtech Limited

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.46 (Reduced from 23.85)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	12.55	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short Term Bank Facilities	6.05	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**40.06 (Rs. Forty Crore and Six Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mahalaxmi Rubtech Limited (MRTL) continue to derive strength from its experienced and resourceful promoters, established track record of operations in the textile processing and weaving businesses as well as stable contribution from the technical textile and processing divisions. The ratings further, continue to derive strength from MRTL's comfortable leverage and debt coverage indicators and adequate liquidity.

Ratings also take cognizance of improvement in total operating income during 9MFY22 (FY refers to the period from April 1 to December 31) with improved demand and better sales realizations.

The ratings, however, continue to be constrained on account of its moderate scale of operations in a highly competitive and cyclical textile industry, moderate profitability and Return on Capital Employed (ROCE) along with a small net worth base and regulatory risk associated with compliance of stringent pollution control norms for the textile processing business.

Rating Sensitivities

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

- Volume driven growth in total operating income (TOI) beyond Rs.400 crore
- sustained operating profitability (PBILDT margin) of more than 12% and ROCE of 15%
- Maintaining overall gearing below 0.50x and comfortable debt coverage indicators

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

- Decline in TOI to lower than Rs.150 crore or decline in operating profitability with PBILDT margin below 7% on a sustained basis
- Elongation in net working capital cycle to beyond 90 days and increase in external borrowings to fund these requirements
- Any large sized debt-funded capex resulting in deterioration in debt coverage indicators in a short time frame

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

Mr. Jeetmal Parekh, Chairman and promoter of MRTL has more than four decades of experience in the textile industry. He is closely involved in strategic decision making for the company. The operations of MRTL are managed by his sons, Mr. Rahul Parekh and Mr. Anand Parekh.

Mr. Rahul Parekh is associated with MRTL since 1992 and looks after the technical textile division of the company. Mr. Anand Parekh, associated with MRTL since 1995 [director since 2008], looks after processing and exports division. The top management is further assisted by experienced and qualified professionals at various levels in the organization. The promoters of MRTL have demonstrated support to the overall operations of the company by infusing funds in the form of equity.

Established track record of operations in the textile industry

MRTL has a track record of over two decades in the textile industry and has well established relationships with its customers and suppliers. MRTL has a presence across many segments of the textile value chain, with business divisions such as fabric weaving, processing, trading, and manufacturing technical textile products.

During FY20, it derived 41% of its revenue from the processing division, followed by Trading Division (30%) and remaining 29% together from the technical textiles and weaving divisions.

Stable contribution from technical textile & processing divisions

Under its technical textile division, MRTL manufactures rubber coated fabric primarily used in offset printing machines alongwith plastic/polymer coated fabrics which are used for various purposes including in print media (in place of flex banners), window

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

blinds and in other applications such as pack-tech, agro-tech and geo-tech. The income of MRTL from technical textile division has been gradually increasing from last three years and stood at Rs.27.87 crore during FY21 (P.Y.: Rs.27.41 crore). During 9MFY22, it stood at Rs.30.77 crore. This is due to an increased demand of these products with better acceptance in the market. This has also translated to better profitability of the division during the year, aiding the overall profitability of the company.
The processing division is a multipurpose processing plant using all fabrics such as polyster, cotton and blended, it undertakes processing of its own fabric as well as processing on job work basis. After witnessing a marginal dip in revenue during FY19, the revenue of processing division increased to Rs.56.64 crore in FY21. Further, the TOI for the division stood at Rs.51.19 crore during 9MFY22.

Comfortable capital structure and debt coverage indicators
The capital structure of MRTL continues to remain comfortable marked by overall gearing of 0.42x as on March 31, 2021 (P.Y.: 0.39x) on back of stable debt profile and accretion of profit to its networth. During Oct 2022, company concluded buy-back of some shares which resulted in reduction in networth base, which was funded through internal accruals / infusion of unsecured loans by promoters. Thus, overall gearing stood moderate at around 0.75x at 9MFY22 end.
Debt coverage indicators of MRTL continued to remain comfortable marked by total debt to GCA of 2.57x (P.Y.: 2.33x) and PBILDT Interest Coverage of 6.51x (P.Y.: 6.55x) as on March 31, 2021. The same continued to remain comfortable even in 9MFY22.
During FY22, company extended a corporate guarantee to its subsidiary, i.e. to MEPL for its working capital limit of Rs.5.50 crore.

Key Rating Weaknesses
Moderate scale of operations, profitability and networth
The scale of operations of MRTL declined by 23% during FY21 and stood moderate at Rs.139.36 crore for the year ended FY21. Decline in its scale of operations during FY21 was mainly on account of decline of revenue by 45% from Global division and decline in revenue by 53% in weaving division owing to covid disruptions, marginally off-set by increase in revenue from processing division and textile division of the company. Of the total sales of MRTL during FY21, exports contributed around 16% of its total sales which increased to 18% during 9MFY22.
Profitability of the company also continue to remain moderate, marked by PBILDT (operating) margin of 14.62% in FY21 (P.Y: 10.36%) and PAT margin of 4.26% (P.Y: 2.77%). Due to moderate profitability, the ROCE also stood moderate at 8.60% in FY21 (P.Y:7.52%). With a moderate TOI and profitability, net worth also remained moderate at Rs.91.63 crore as on March 31, 2021. This restricts its operational flexibility and financial flexibility.
During 9MFY22, company registered TOI of Rs.133.73 crore as against TOI of Rs.81.94 crore during 9MFY21 while full year TOI is expected to remain moderate, in line with FY21. PBILDT margin moderated to 10.55% in 9MFY22 owing to increase in prices of raw materials including fabric, yarn and chemicals.

Intense competition owing to a fragmented nature of the textile industry
The textile weaving and processing industry is highly fragmented in nature with the presence of a large number of unorganized players. Smaller processing units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared to larger integrated textile companies who have better operational and financial efficiencies. Furthermore, limited value addition and low technology intensity (consequently translating into thin profit margins), limits their bargaining power vis-à-vis their customers.

Cyclical industry alongwith regulatory risks associated with compliance of stringent pollution control norms
Textile industry is cyclical in nature and closely follows the macroeconomic business cycles. Further, the prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic demand and supply in domestic markets. Hence, any shift in macroeconomic environment globally would have an impact on domestic textile industry. Further, textile processing requires compliance to stringent norms set by pollution control authorities and any violation in compliance to these norms or any adverse change in these norms would adversely impact MRTL's operations.

Liquidity: Adequate
MRTL's liquidity continues to remain adequate marked by free cash and bank balances of Rs.37.03 crore as on December 31, 2021 (Rs.36.70 crore as on March 2021). The operating cycle of MRTL continued to remain moderate at 71 days during FY21 with high inventory holding period of over 90 days, alongwith credit period of 60-90 days offered its customers, partially set of by credit availed of around Rs.110 days from the suppliers. Average utilization of MRTL's fund based limits remained moderate, at over 60% for trailing twelve months ending February 2022. Company has low scheduled debt repayment obligations in range of Rs.1.70 crore to 4.90 crore in next three years, which are expected to be met out of its cash accruals. It completed buy-back of some shares in Oct 2022, funded through internal accruals / infusion of funds by promoters.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies

About the Company
Incorporated in 1991, MRTL is promoted by Mr. Jeetmal Parekh and his family members. The company is engaged in weaving and processing of fabric (own as well as job work) and manufacturing of technical textiles (rubber printing blankets) which find application in screen and offset printing machines. As on March 31, 2021, MRTL had an installed capacity of manufacturing 36.40 lakh meters p.a. fabric and 558 lakh meters p.a. of fabric processing capacity. Furthermore, from FY21 onwards, company has introduced a new product in the technical textile division for manufacturing of plastic polymer products. These find application in various segments such as pack-tech, agro-tech, geo-tech and print media.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	182.13	139.36	133.33
PBILDT	18.86	20.38	14.11
PAT	5.04	5.94	4.26
Overall gearing (times)	0.39	0.42	0.75
Interest coverage (times)	6.55	6.51	4.99

A: Audited; Prov.: Provisional, NA: Not available
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
Term Loan-Long Term		-	-	March 2027	8.46	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	13.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	12.55	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A2
Fund-based - ST-Working Capital Limits		-	-	-	2.55	CARE A2

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	Term Loan-Long Term	LT	8.46	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (02-Apr-18)
2	Fund-based - LT-Cash Credit	LT	13.00	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (02-Apr-18)
3	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.55	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (05-Apr-21)	-	1)CARE BBB+; Stable / CARE A2 (30-Mar-20) 2)CARE BBB+; Stable / CARE A2 (02-Apr-19)	1)CARE BBB+; Stable / CARE A2 (02-Apr-18)
4	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	1)CARE A2 (05-Apr-21)	-	1)CARE A2 (30-Mar-20) 2)CARE A2 (02-Apr-19)	1)CARE A2 (02-Apr-18)
5	Fund-based - ST-Working Capital Limits	ST	2.55	CARE A2	1)CARE A2 (05-Apr-21)	-	1)CARE A2 (30-Mar-20) 2)CARE A2 (02-Apr-19)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based - ST-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

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

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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