Mahalaxmi Rubtech Limited

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	23.85 (Reduced from 36.09)	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 Facilities	42.45 (Rs. Forty-Two Crore and Forty-Five Lakhs Only)		

Detail of facilities in Annexure-1

Detailed Rationale and 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 improvement in performance of its technical textile business with niche offerings. The ratings further, continue to derive strength from MRTL's comfortable leverage and debt coverage indicators and adequate liquidity.

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. The ratings also take into cognizance some moderation in the company's total operating income (TOI) during 9MFY21 (FY refers to April 1 to March 31) owing to unprecedented disruptions caused by the outbreak of Covid-19 pandemic, albeit with improved profitability.

Rating Sensitivities

Positive Factors

- *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 comfortable leverage and debt coverage indicators at present levels*

Negative Factors

- *Decline in TOI to lower than Rs.150 crore or decline in PBILDT margin to 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 and drives the strategic decision making of 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 management is further assisted by experienced and qualified professionals at various levels in the organization.

Moreover, MRTL's promoters have demonstrated their support to the overall operations of the company by infusion of equity during last few years.

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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

During FY20, it derived 41% of its revenue from the trading division, followed by processing division (30%) wherein it has a capacity to process (print and dye) various type of fabrics and remaining 29% together from the technical textiles and weaving divisions.

Improved performance of the technical textile division

Under its technical textile division, MRTL manufactures rubber coated fabric primarily used in offset printing machines. The income of MRTL from technical textile division has been gradually increasing from last three years and stood at Rs.27.41 crore during FY20 (P.Y.: Rs.22.48 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. Operating profitability from technical textile division stood healthy at 28% during FY20 and further improved to 38% during 9MFY21.

Technical Textile capex

Owing to good prospects of technical textiles in both domestic and export markets, during Q4FY21, MRTL completed its capex for expansion and modernization of its technical textile capacity. With this capex, company would now manufacture plastic/polymer coated fabrics which are used for various purposes including in print media (in place of flex banners), window blinds and in other applications such as pack-tech, agro-tech and geo-tech. The plant commenced commercial production from January 2021 onwards. The total cost of capex was Rs.10.48 crore which was funded through debt and internal accruals.

Comfortable leverage and debt coverage indicators

The capital structure of MRTL continued to remain comfortable, marked by overall gearing of 0.39x as on March 31, 2020 (P.Y.: 0.44x). This is on the back of a stable debt profile and accretion of profit to its networth. Further, the debt coverage indicators of MRTL also continued to remain comfortable, marked by total debt to GCA of 2.33x (P.Y.: 2.55x) and PBILDT Interest Coverage of 11.54x (P.Y.: 7.63x) as on March 31, 2020. Improvement in the latter was due to some improvement in operating profitability during the year, alongwith reduction in interest costs with lower debt levels.

Overall gearing and debt coverage indicators continued to remain comfortable even as on December 31, 2020.

Liquidity – Adequate

Liquidity of the company remains adequate owing to sufficient cushion in repayments as against gross cash accruals and moderate utilisation of its working capital limits and good amount of free cash and bank balances.

Operating cycle of MRTL remained moderate at 58 days during FY20 due to which, the average utilization of its fund-based limits for trailing twelve months ending February 2021 also remained moderate at 49%. Company had a moderate collection and inventory holding period of 73 and 78 days respectively, which was partially set of by credit of around 94 days available from the suppliers.

Furthermore, MRTL had a free cash and bank of Rs.34.07 crore as on December 2020 which further aids to its liquidity. MRTL has debt repayment obligations in range of Rs.5.50 – 8.00 crore in next three years which are expected to be sufficiently met by internal accruals generated by the company.

The company did not avail the moratorium facility provided by the Reserve Bank of India as a Covid-19 pandemic relief measure.

Key Rating Weaknesses

Moderate scale of operations, profitability and ROCE

Over the past few years, MRTL's scale of operations have remained range-bound with a TOI between Rs.180-230 crore primarily due to its presence in highly competitive, fragmented and a cyclical textile industry. During FY20, TOI remained moderate at Rs.180.77 crore (P.Y.: Rs.185.95 crore). Marginal decline in MRTL's TOI during FY20 as compared to the last year was due to the Covid-19 pandemic induced disruptions.

Profitability of company also continues to remain moderate, marked by a PBILDT (operating) margin of 9.68% in FY20 (P.Y.: 9.07%) and PAT margin of 2.79% (P.Y.: 2.57%). Due to a moderate profitability, the ROCE also stood moderate at 6.41% in FY20 (7.04% in FY19). With a moderate TOI and profitability, net worth also remained moderate at Rs.89.16 crore as on March 31, 2020. This restricts its operational flexibility and financial flexibility.

During 9MFY21, company registered TOI of Rs.81.49 crore as against TOI of Rs.140.18 crore during 9MFY21, with PBILDT margin of 15.35%. With this, its TOI is expected to moderate further during FY21, from FY20 level.

Owing to covid-induced lockdown and its impact on economy, demand was impacted in initial months of FY21. However, some improvement was witnessed in order inflows in last few months from both domestic and export markets, with gradual resumption in economic activities, restoration of operations at the end of the customers and suppliers and reduced sourcing from China owing to the trade war. This resulted in improvement in sales realisations and profitability during 9MFY21, despite a lower TOI.

Sustainability of this recovery is contingent upon the extent of the Covid-19 pandemic given the relatively discretionary nature of the apparel. Nevertheless, company's adequate liquidity and a long track record of operations in the industry are expected to help in tiding over the adverse impact of Covid-19.

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.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Rating methodology for textile industry
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector

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, 2020, 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)	FY19 (A)	FY20 (A)
Total operating income	185.95	180.77
PBILDT	16.87	17.50
PAT	4.79	5.04
Overall gearing (times)	0.44	0.39
Interest coverage (times)	7.63	11.54

**A: Audited*

MRTL has reported a TOI of Rs.81.49 crore and PBILDT margin of 15.35% during 9MFY21.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	July 2025	10.85	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	10.85	CARE BBB+; Stable	-	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 (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 (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 (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 (30-Mar-20) 2)CARE A2 (02-Apr-19)	-	-

Annexure-3 Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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

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

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