

Mewar Polytex Limited

March 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	48.92 (Reduced from 64.23)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	40.00	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Mewar Polytex Limited (MPL), CARE Ratings Limited (CARE Ratings) has taken a combined analytical view of MPL and its group entities – Harmony Plastics Private Limited (HPPL), Sun Polytex Private Limited (SPPL), and Plasti Weave Industries LLP (PWI), together referred to as the Mewar Group, on account of their common promoter group and management, presence in similar line of business and operational linkages.

The ratings assigned to the bank facilities of the Mewar group entities continue to consider growth in the group's scale of operations on the back of growing demand for technical textiles along with healthy profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings continue to derive strength from the long track record of operations of Mewar Group in manufacturing of woven and non-woven fabrics, experienced management, operational synergies among group entities and established presence of the US-based joint venture (JV) partner of HPPL.

The ratings, however, remain constrained due to the group's presence in the highly competitive and fragmented industry, susceptibility of the group's profitability to fluctuations in the raw material prices as well as foreign exchange rate and customer concentration risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the group's scale of operations above ₹850 crore and PBILDT margin above 14% on a sustained basis.
- Sustenance of comfortable capital structure marked by overall gearing below 0.50x and total debt/ PBILDT below unity.

Negative factors

- Deterioration in the scale of operations to below ₹500 crore and PBILDT margin below 11% on a sustained basis.
- Moderation in the overall gearing above 1.00x on a sustained basis.
- Elongation in the operating cycle above 150 days.
- Inordinate delay in implementation of the ongoing capex resulting into significant cost overrun.

Analytical approach: Combined

For the purpose of analysis, combined view of the entities belonging to the Mewar Group, i.e., HPPL, SPPL (rated 'CARE A-; Stable/ CARE A2+'), MPL (rated 'CARE A-; Stable/ CARE A2+') and PWI (rated 'CARE A-; Stable/ CARE A2+') has been considered as all these entities are engaged in the same line of business, have common promoters as well as management (the Bapna family) and have operational linkages.

Key strengths

Healthy growth in scale of operations along with healthy profitability

The total operating income (TOI) of the Mewar group registered healthy y-o-y growth of 23.22% during FY22 and stood at ₹588.72 crore. The growth in the scale of operations was driven by higher demand for majority of its technical textile products (i.e., woven and non-woven fabric), along with increase in the sales realisation.

The group's operating profit (PBILDT) margin, over last few years, has remained healthy in the range of 11-12%. It had increased to around 16% in FY21 and 9MFY22 with significant moderation in crude oil prices during the period, along with increase in the sales of high margin non-woven fabric, used in manufacturing of disposable healthcare products. For full year FY23, however, operating margin normalised to 11.42% due to steep increase in the raw material prices and logistic cost mainly during Q4FY23, with outbreak of geopolitical issues and increase in freight rates / congestion at major ports.

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

For 9MFY23, the group reported TOI of ₹472.80 crore along with PBILDT margin of 11.37%. The demand moderated during this period to some extent due to the slowdown in Western economies, which resulted in muted volume growth, though realisations remained higher. With this, the TOI of entire year is expected to register moderate growth over FY22, while the operating margin is expected to largely remain in line with FY22 and 9MFY23.

Comfortable capital structure and debt coverage indicators

The capital structure of the Mewar group, despite deteriorating marginally on account of higher utilisation of working capital limits and availment of term debt for capex, remained comfortable with an overall gearing of 0.79x (P.Y.: 0.46x) as on March 31, 2022. It is expected to continue to remain comfortable with reduction in debt levels on account of scheduled repayments and accretion of profit to reserves. The group concluded its capacity expansion in MPL during FY23 and is mulling further capex in one its entities. This is expected to be partially funded through debt, however, overall gearing is expected to remain comfortable even after considering the same.

The debt coverage indicators remained comfortable with PBILDT interest coverage of 8.22x (P.Y. 13.76x) in FY22 and total debt to gross cash accruals (TD/GCA) at 3.47 years (P.Y. 1.86 years) in FY22, though moderated to an extent from FY21 level with lower profit and increase in debt. Further, the PBILDT interest coverage remained at 14.71x during 9MFY23.

Experienced promoters

B.H. Bapna, founder promoter of the Mewar Group, has an extensive industry experience of more than four decades and looks after the overall management of the group. He is assisted by other members of the Bapna family. Vinod Bapna, Sandeep Bapna and Shilpa Bapna also have more than two decades of industry experience, and are also involved in the day-to-day operations of the group. One of the promoters, Vijendra Bapna and his family, have exited from the Mewar group, however, other promoter continues to handle the business, with no major impact of the same on the operations of the Mewar Group.

Established track record of operations and operational synergies among group entities

The Mewar Group has an established presence of more than four decades in the technical textile industry. The group has a diversified product portfolio including polypropylene (PP) and high-density polyethylene (HDPE)-based woven and non-woven fabrics, bags, geotextile fabrics and protective apparels. As on February 16, 2023, the group had integrated manufacturing facilities with total capacity of 51,000 MTPA for PP Fabric and 9 crore pieces for shoe cover located in the states of Rajasthan and Gujarat. Furthermore, the group has a trading company named 'Anita Plastics Inc.' (API), USA, established in 2005 to facilitate sales and distribution of its products in the US market. All entities operate under a common management and have a common distribution network as well as raw material procurement arrangement.

Established presence of US-based JV partner of HPPL

The Mewar group derives benefit from the established global brand name of HPPL's US-based joint venture (JV) partner, Alpha Pro Tech Ltd (APTL; Alpha Protech Engineered Products Inc., a subsidiary of APTL holds 41.61% stake in HPPL), and its expertise of more than three decades in the industry. Further, APTL is the key customer of HPPL as it contributed around 40%-60% of total sales of HPPL during last three years ending FY22.

APTL is one of the global manufacturers and solution provider with expertise in the field of high-value protective apparel, infection control products and a line of construction weatherisation building products for the housing market. It mainly caters to construction building supply and roofing distributors, pharmaceutical manufacturing, bio-pharmaceutical manufacturing, medical device manufacturing, lab animal research, high technology electronics manufacturing (which includes the semi-conductor market) and medical & dental distributors.

Key weaknesses

Customer concentration risk albeit major sales to USA based group company, API, which has a diverse customer base

The Mewar group has a concentrated customer profile with top five customers contributing more than 90% of its net sales in FY22. However, major sales were to USA-based group company API, which is a marketing arm of the group and has a customer base of 60-70 customers across diverse industries. The other top customer, APTL, is a JV partner of HPPL and has an established presence and customer relationship in USA.

Presence in a highly competitive and fragmented industry albeit good growth prospects

Technical textile industry is highly fragmented with presence of large number of unorganised and organised regional manufacturers along with competition from rising imports mainly from South Asian market. Furthermore, with favourable government policies like interest rate subsidy under Technology Up-gradation Fund Scheme (TUFS), concession in custom duty coupled with low entry barriers in terms of capital and technology requirements has led to the entry of many new players in this

industry. However, the Indian technical textile industry is estimated to grow at a compounded annual growth rate (CAGR) of around 8% till 2025. A National Technical Textile Mission has been set up, which aims to achieve this growth rate through market development, market promotion, international technical collaborations, investment promotions, and Make in India initiatives which is expected to augur well for the growth in scale of operations of Mewar group.

Susceptibility of profitability to volatility in raw material prices and foreign exchange rate

The main raw materials used for manufacturing of coated and non-coated woven as well as non-woven fabrics are plastic granules (PP/HDPE), PVC-coated sole and synthetic rubber. Majority of these raw materials are crude oil derivatives. Hence, any steep volatility in international crude oil prices or foreign exchange rate directly impacts the prices of plastic granules, which may affect the profitability of the group depending upon the pass-on of such an increase to the end users; given around 60-65% share of raw materials in the total cost of sales of the group.

During FY22, export sales contributed around 64% (around 62% in FY21) of the total sales for all four entities. While the group partially hedges its forex exposure, it also benefits from natural hedge by availing packing credit facility in foreign currency as well as movement of raw material price in tandem with USD. During FY22, the group earned foreign exchange gain of ₹9.70 crore (₹3.65 crore in FY21).

Liquidity: Adequate

The liquidity of the group is adequate with sufficient cushion available in cash accrual generation vis-à-vis debt repayment obligations, interest free unsecured loans by promoters to support operations and moderate utilization of working capital limits. Average utilisation of group's working capital limits remained moderate at around 74% for past 12 months ended January 2023. Despite increased working capital requirement with increase in the inventory levels, the group reported cash flow from operations of ₹2.78 crore (₹11.82 crore in FY21). Furthermore, the group had unencumbered cash and bank balance of ₹27.46 crore as on December 31, 2022. The operating cycle increased to 126 days in FY22 (103 days in FY21) mainly due to increase in the inventory period to 121 days in FY22 from 91 days in FY21. Inventory levels are high mainly on account of lower offtake by customers towards year-end- owing to slowdown in demand along with increase in prices. The group offers credit period of 30 to 45 days to its domestic customers while in case of exports mainly to APTL, credit period of 7 days is given for woven fabric and 15-30 days for non-woven fabric. API on the other hand is given credit period of up to 60 days. The group procures majority of its raw material from RIL to whom the payment is made within 5-7 days, while it gets credit period of around 15-30 days from other suppliers.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Plastic Products - Industrial

Udaipur-based (Rajasthan) Mewar Group (MG) has established presence in the technical textile industry for more than four decades. The group entities, HPPL, MPL, SPPL, and PWI, are engaged in same line of business i.e., manufacturing of technical textiles. The group has total installed capacity of 51,000 Metric Tonnes per Annum (MTPA) for PP fabrics and 9 crore pieces for shoe cover as on February 16, 2023. Its product portfolio includes polypropylene (PP) and high-density polyethylene (HDPE)-based woven as well as non-woven fabrics, bags, geotextile fabrics, such as ground cover, house wrap and roof underlayment as well as protective apparels such as shoe covers and sleeve protector, bouffant cap through manufacturing facilities located in Rajasthan and Gujarat. These products find application across industries such as cement, food, pharmaceuticals, chemical, construction, and healthcare.

MPL was initially incorporated as a private limited company in 1979 by B. H. Bapna along with his family members. Subsequently, in 1994, it was reconstituted as a public limited company. MPL is engaged in the manufacturing of light PP-based woven fabrics, ground cover and bags which find its application in packaging across various industries ranging from chemical to fertilizer industry and agriculture. The company operates from its two manufacturing facilities located near Udaipur having aggregate installed capacity of 16,000 MTPA as on February 16, 2023.

Brief Financials (₹ crore) – Mewar Group Combined	March 31, 2021 (UA)	March 31, 2022 (UA)	December 31, 2023 (Prov.)
Total operating income	477.76	588.72	479.15
PBILDT	74.83	67.22	76.32
PAT	34.84	25.72	38.97
Overall gearing (times)	0.46	0.79	NA
Interest coverage (times)	13.76	8.22	14.71

UA: Uaudited; Prov: Provisional; NA: Not available; Audited financials combined by CARE Ratings

Brief Financials (₹ crore)- MPL Standalone	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2023 (Prov.)
Total operating income	131.25	223.21	155.19
PBILDT	11.78	16.56	20.00
PAT	7.06	6.42	3.51
Overall gearing (times)	0.42	1.09	NA
Interest coverage (times)	12.88	8.07	5.65

A: Audited; Prov: Provisional; NA: Not available

Status of non-cooperation with previous CRA:

Acuite has classified MPL's rating under 'Issuer not Cooperating' vide its press release dated February 23, 2022, on account of inadequate information from the company to carry out review.

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2028	48.92	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	40.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	48.92	CARE A-; Stable	-	1)CARE A-; Stable (15-Mar-22) 2)CARE A-; Stable (25-Feb-22) 3)CARE BBB+; Positive (26-Jul-21) 4)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Positive (07-Apr-20)	1)CARE BBB+; Positive (04-Apr-19)
2	Fund-based - LT/ST-Cash Credit	LT/ST*	40.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (15-Mar-22) 2)CARE A-; Stable / CARE A2+ (25-Feb-22) 3)CARE BBB+; Positive / CARE A2 (26-Jul-21) 4)CARE BBB+; Positive / CARE A2 (06-Apr-21)	1)CARE BBB+; Positive / CARE A2 (07-Apr-20)	1)CARE BBB+; Positive / CARE A2 (04-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings 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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