Malaya Rub Tech Industries

November 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	33.81 (Reduced from 34.53)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short-term bank facilities	0.30	CARE A3 (A Three)	Assigned
Short-term bank facilities	20.20 (Enhanced from 19.90)	CARE A3 (A Three)	Reaffirmed
Total bank facilities	**54.31 (₹ Fifty-four crore and thirty-one lakh only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Malaya Rub Tech Industries (MRI) factor in the significant growth in the scale of operations and the improved debt coverage metrics during FY22 (refers to the period from April 1 to March 31) and H1FY23 (refers to period from April 1 to September 30). The revenue contribution from the recently incorporated green dry processing unit is also expected to aid the sustainable improvement in operating margins going forward. The ratings continue to derive strength from the experienced promoters and the long track record of operations, the reputed clientele base, and the locational advantage with proximity to raw materials.

The ratings, however, continue to be constrained by the vulnerability of profit margins to raw material price movements and the partnership nature of the firm with instances of capital withdrawal.

Rating sensitivities:

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

- Sustained improvement in the scale of operations above ₹500 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 8%.
- Improvement in the capital structure of the firm with overall gearing below 0.5x.

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

- Continuous deterioration in the operating margins below 4%.
- Any higher-than-envisaged debt-funded capex or capital withdrawals, leading to a deterioration in the capital structure with gearing above 1.5x.

Detailed description of the key rating drivers

Experienced promoters in the rubber industry

Mathew T Thomas, the Managing Director of MRI, has been actively involved in the rubber industry for the past three decades and is the founder of the Malaya group of companies. The group initially started off with rubber trading on a small scale, and later on, ventured into rubber processing in 2004 by establishing MRI. The group also includes entities involved in other lines of activities such as tourism, resorts, and real estate. Mathew T Thomas is ably supported by his son, Melwin Mathews, and all the entities in the group have independent finance and administration professionals who take care of the day-to-day operations.

Growth in income during FY22 and revenue visibility supported by new dry process method

MRI is majorly into manufacturing of Indian Standard Natural Rubber (ISNR) 20, which is one of the raw materials in tyre manufacturing. The operating income of the grown by 42% and stood at ₹ 291.60 crore in FY22 (refers to the period April 1 to March 31) backed by improved sales realization owing to better demand from tyre manufacturing sector post covid-19. During H1FY23, the firm has achieved income of ₹ 198.22 crore registering growth of 34.60% over H1FY22. MRI has setup a new unit at the cost of ₹ 5 crore which uses 'Green dry processing' method for processing the rubber to produce ISNR with higher quality specifications such as Mooney viscosity, Plastic retention Index (PRI) and Initial Wallace plasticity. The process produces white spot free ISNR and also does not consume water and uses less fuel compared to wet processing. The unit is expected to commence operations from Q4FY23 which would fetch higher margins for the high quality product. The firm had already secured orders for the new product from its existing customers.

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

Moderately leveraged capital structure however improved debt coverage indicators:
The capital structure of the firm stood moderately leveraged with overall gearing of 1.40 as on March 31, 2022 as against 1.57 as on March 31, 2021. The gearing improved to 0.70 as on September 30, 2022 due to reduced working capital borrowings as the prices of raw materials were lower during current year compared to the previous years. However, the working capital will be mostly used in peak during the months of November to March which is the period for collection and storage of raw materials.
The debt coverage metrics however improved with Total debt/ GCA of 2.94 as on March 31, 2022 as against 3.56 as on March 31, 2021. With the growth in operating profits, the interest coverage also improved from 4.18 in FY21 to 9.01 in FY22.

Locational advantage for abundance of raw material near processing facilities:
MRI has its manufacturing facilities in Kerala and Tripura which gives the advantage of easy raw material availability to the company over its competitors as the share of the north-eastern states in the country's rubber production has been steadily going up. Tripura is the second-largest rubber producer in India, after Kerala. MRI had increased its capacities of the Agarthala factory in the last two years in order to counter the risk of lack of availability of field coagulam from Kochi. While sourcing of raw materials from Kerala is becoming a difficult prospect for the firm, the increased rubber production in the north-eastern states will help the firm to reduce this risk.

Exposure to volatility in rubber prices resulting in moderate profit margins:
The main raw material for the company is "field coagulam", the price of which is determined by the price of natural rubber which in turn is determined according to the market price fixed by the rubber board. The agricultural commodity prices soared high in the last year because of the short supply arising primarily due to the lockdown resulting from the pandemic and related disruptions. The disruptions in the import of rubber from other countries with a shortage of containers in the wake of the pandemic also added to the increase in the demand for domestic rubber resulting in the increase in the prices. During this period the rubber prices (ISNR) went up to ₹ 170/Kg in November 2021 and it has been gradually cooling down since Q1FY23. Citing the above reason, the PBILDT margins of the firm moderated and stood at 7.19% in FY22 as against 8.68% in FY21. The PBILDT margins during H1FY23 moderated to 4.86% as against 6.61% in H1FY22.

Partnership nature exposing to the inherent risk of capital withdrawal:
MRI, being a partnership firm, is exposed to the inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. The promoters have withdrawn capital of ₹ 5.96 crores in FY22 for infusing funds in another group entity run by the same promoters. Moreover, partnership firm have restricted avenues to raise capital which could prove a hindrance to its growth

Industry and prospects
India is the 2nd largest consumer of NR (natural rubber) globally with current consumption of around 1.1 million tonnes. The Rubber is a Rabi crop which is sown in June-July and cut in November-December. Around 40% of the total NR consumption in India is at present met from import of rubber. 68% of NR consumption in India is in the automotive tyre sector. Natural Rubber (NR) production in the country during 2021-22 was 775,000 tonnes compared to 715,000 tonnes during 2020-21 recording a growth of 8% compared to a growth of 0.4% registered during the previous year. The growth in production improved after the COVID-19 pandemic in the country which is supported by several factors such adoption of untapped area into tapping. Even though the tappable area under rubber was 7,18,000 ha during 2020-21, only 5,26,000 ha (73.2%) has contributed to the NR production during the year. The domestic consumption of NR in 2021-22 was 12,38,000 tonnes, increased 12.9% from the quantity of 10,96,410 tonnes consumed during 2020-21 with the huge demand in auto tyre sector. The auto tyre sector recorded a growth of 50% during 2021-22 as against growth of 3.4% recorded during 2020-21.

Liquidity: Adequate

Liquidity is adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations of ₹ .2.18 crore in FY23. The typical season for raw material procurement is during the monsoon and torrential rain end which is from mid-November to March. MRI stocks the inventory and utilises its bank limits to the maximum during this period. MRI had an inventory holding period of 51 days in FY22 and a working capital cycle of 50 days. The firm sells directly to its customers instead of dealing through distributors and had a collection period of 12 days in FY22. The average working capital utilisation for fund-based limits stood at 70% for the 12-month period ended September 2022. MRI had free cash balance of ₹ 0.86 crore as on March 31, 2022.

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
Manufacturing companies
Wholesale trading

About the Firm

Malaya Rub Tech Industries (MRI), established in 2004 by Mr Mathew T. Thomas, is a closely held partnership firm engaged in the manufacture and trading of processed rubber which is prominently used by the auto industry for tyre manufacturing. MRI has two manufacturing units located at Edayar in Kochi and Tripura, which has a total annual production capacity of 39600 MT. The operations of the firm are overseen by Mr Mathew T Thomas along with his son, Mr. Melwin Mathews. The firm is a part of the Malaya group which has been in existence since 1988 and has its business in various fields such as tourism, resorts, real estate and rubber.

Brief Financials (₹ crore)	FY21 (A)	FY22 (P)	H1FY23 (P)
Total operating income	205.42	291.60	198.22
PBILDT	17.83	20.96	9.64
PAT	8.91	12.78	5.54
Overall gearing (times)	1.57	1.40	0.70
Interest coverage (times)	4.18	9.01	6.02

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable

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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	23.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	May 2028	10.81	CARE BBB; Stable
Fund-based - ST-Bank Overdraft		-	-	-	5.80	CARE A3
Fund-based - ST-Packing Credit in Indian rupee		-	-	-	3.40	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	0.30	CARE A3
Non-fund-based - ST-Standby Line of Credit		-	-	-	11.00	CARE A3

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	10.81	CARE BBB; Stable	-	1)CARE BBB-; Stable (29-Oct-21)	1)CARE BBB-; Stable (30-Oct-20)	1)CARE BBB-; Stable (07-Nov-19)
2.	Fund-based - LT-Cash Credit	LT	23.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (29-Oct-21)	1)CARE BBB-; Stable (30-Oct-20)	1)CARE BBB-; Stable (07-Nov-19)
3.	Non-fund-based - ST-Standby Line of Credit	ST	11.00	CARE A3	-	1)CARE A3 (29-Oct-21)	1)CARE A3 (30-Oct-20)	1)CARE A3 (07-Nov-19)
4.	Fund-based - ST-Packing Credit in Indian rupee	ST	3.40	CARE A3	-	1)CARE A3 (29-Oct-21)	1)CARE A3 (30-Oct-20)	1)CARE A3 (07-Nov-19)
5.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (30-Oct-20)	1)CARE BBB-; Stable (07-Nov-19)
6.	Non-fund-based - ST-Proposed non fund based limits	ST	-	-	-	1)Withdrawn (29-Oct-21)	1)CARE A3 (30-Oct-20)	1)CARE A3 (07-Nov-19)
7.	Fund-based - ST-Bank Overdraft	ST	5.80	CARE A3	-	1)CARE A3 (29-Oct-21)	1)CARE A3 (30-Oct-20)	-
8.	Non-fund-based - ST-Bank Guarantee	ST	0.30	CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Term Loan	Simple
3	Fund-based - ST-Bank Overdraft	Simple
4	Fund-based - ST-Packing Credit in Indian rupee	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Standby Line of Credit	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 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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About us:
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