

Mewar Polytex Limited

March 15, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	64.23	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	40.00 (Enhanced from 33.00)	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	104.23 (Rs. One Hundred Four Crore and Twenty-Three Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings of Mewar Polytex Limited (MPL), CARE 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 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 MPL continue to derive strength from 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 US based joint venture (JV) partner of HPPL in the industry. The ratings also derive strength from healthy growth in scale of operations of Mewar group during FY21 (refers to the period April 1 to March 31) as well as 9MFY22 on the back of growing demand for its products along with improvement in operating profit (PBILDT) margin and debt coverage indicators, sustenance of its comfortable capital structure and adequate liquidity.

The ratings, however, remain constrained due to the group's presence in a competitive and fragmented technical textile industry, susceptibility of profitability to raw material price as well as foreign exchange rate volatility and customer concentration risk. The ratings are also constrained by timely completion and stabilization risk associated with on-going large size debt funded capex in FY22.

Rating Sensitivities

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

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

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

- Deterioration in scale of operations to below Rs.500 crore and PBILDT margin below 12% on sustained basis
- Moderation in overall gearing above 1.00x on sustained basis
- Elongation in its operating cycle above 150 days
- Inordinate delay in implementation of ongoing capex resulting into significant cost overrun

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in scale of operations along with improvement in profitability in FY21 as well as 9MFY22: Mewar group's total operating income (TOI) registered healthy y-o-y growth of 16% during FY21 and stood at Rs.485.45 crore (Rs.418.30 crore in FY20). The growth in scale of operations was driven by higher demand for its major technical textile products resulting in increase in both sales volume as well as sales realization of its products. The group's operating profit (PBILDT) margin also improved by 374 bps y-o-y to 16.24% in FY21 with lower raw material cost during the period due to benefit derived from moderation in crude oil prices as well as higher sales of non-woven fabric (used in manufacturing of disposable healthcare products) which is higher margin product.

The demand for technical textile products continued to remain robust in the current year as well with the group reporting TOI of Rs.479.15 crore in 9MFY22 along with healthy PBILDT margin of 15.93%.

Comfortable capital structure and debt coverage indicators: Mewar group's capital structure continued to remain comfortable with overall gearing of 0.46x as on March 31, 2021. Despite increase in outstanding term loan as well as working capital borrowings, overall gearing remained stable at FY20 level due to increase in networth base on back of healthy profit accretions to reserves coupled with additional infusion of subordinated unsecured loans of Rs.23.93 crore in FY21. Going

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

forward, capital structure is expected to continue to remain comfortable despite increase in debt levels towards on-going debt funded expansion capex.

Debt coverage indicators also strengthened in FY21 due to improvement in operating profit and cash accruals coupled with lower interest cost, resulting in PBILDT interest coverage of 14.50x (P.Y.: 7.01x) and total debt/ GCA of 1.86x (2.21x).

Experienced promoters: Mr. B.H. Bapna, founder promoter of the Mewar Group, has an extensive industry experience of more than five decades and looks after the overall management of the group. He is assisted by his family members, Mr. Vinod Bapna, who looks after the production function, Mr. Sandeep Bapna, who looks after the finance function and Mrs. Shilpa Bapna who looks after the administration of the group.

Established track record of operations and operational synergies among group entities: 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 December 31, 2021, the group had integrated manufacturing facilities with total capacity of 42,333 MTPA located in Rajasthan and Gujarat. Furthermore, the group also incorporated a trading company named 'Anita Plastics Inc.' (API), USA in 2005 to facilitate the 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 policy.

Established presence of US based JV partner of HPPL: Mewar group derives benefit from the established global brand name of HPPL's US-based joint venture 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. 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 weatherization 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 Rating Weaknesses

Customer concentration risk albeit major sales to USA based group company, API, which has a diverse customer base: Mewar group had a concentrated customer profile with top 10 customers contributing around 65% of its net sales in FY21. 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 JV partner of HPPL and has an established presence and customer relationship in USA.

On-going large sized debt funded capex: The group is currently undertaking a greenfield capacity expansion project in MPL by setting up new units in Dabok and Bedwas near Udaipur. Commercial production of Phase – I for 3,000 MTPA capacity was achieved in September 2021. The second phase for increasing capacity by 7,000 MTPA is expected to be completed by March 2022 and commercial production is envisaged from April 2022. The total envisaged cost for this project (Phase I & II) is ~Rs.99 crore which shall be funded through term loan of Rs.63 crore, unsecured loan of Rs.22.81 crore and remaining through internal accruals. Timely completion and stabilization of this project shall be crucial for the group's overall growth prospects.

Presence in a highly competitive and fragmented industry albeit good growth prospects: Technical textile industry is highly fragmented with presence of large number of unorganized and organized regional manufacturers along with competition from rising imports mainly from South Asian market. Further, 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.

The Indian technical textile industry is estimated to grow at a compounded annual growth rate (CAGR) of 15-20% till 2024 to reach a market size exceeding USD 40 billion. 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.

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. Raw material cost constituted ~60-65% of the group's total cost of sales. Majority of these raw materials are crude oil derivatives and hence any volatility in international crude oil prices and foreign exchange rate directly impacts the prices of plastic granules which may affect the profitability of the group. However, profitability has remained largely stable indicating that the group has largely been able to pass on the fluctuation to the customers.

During FY21, export sales contributed ~88% (~76% in FY20) of the group's TOI. 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 FY21, the group earned foreign exchange gain of Rs.3.65 crore (Rs.6.33 crore in FY20).

Liquidity: Adequate

The liquidity of the group is adequate with sufficient cushion available in cash accrual generation vis-à-vis debt repayment obligations, infusion of interest free unsecured loans by promoters to support operations and moderate utilization of working capital limits.

Average utilization of group's working capital limits remained moderate at 78% for past 12 months ended January 2022. Despite increased working capital requirement with growth in scale of operations, the group had a positive cash flow from operations of Rs.15.81 crore during FY21 (Rs.72.87 crore in FY20) due to higher profit generated during the period. Furthermore, the group had cash and bank balance of Rs.10.66 crore as on December 31, 2021.

Operating cycle remained stable at 101 days in FY21 (101 days in FY20). Increase in inventory period to 90 days in FY21 from 75 days in FY20 was offset by lower collection period of 33 days as against 42 days in FY20 with change in inventory recognition policy. The group offers credit period of 30 to 45 days to its domestic customers while in case of exports mainly to APTL, credit period is 7 days for woven fabric and 15-30 days for non-woven fabric. API on the other hand receives credit period of up to 60 days. The group procures majority of its raw material from RIL where the payment is made within 5-7 days while it gets credit period of around 15-30 days from other suppliers.

Analytical approach: Combined

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

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

MPL was initially incorporated as a private limited company in 1979 by Mr. B. H. Bapna along with his family members. Subsequently, in 1994, it was reconstituted as a public limited company. MPL is engaged in 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 7,200 MTPA as on Dec. 31, 2021.

Udaipur (Rajasthan) based 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 42,333 Metric Tonnes per Annum (MTPA) for PP fabrics and 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.

Brief Financials – Mewar Group Combined (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	418.30	485.45	479.15
PBILDT	52.26	78.82	76.32
PAT	19.09	34.84	38.97
Overall gearing (times)	0.47	0.46	NA
Interest coverage (times)	7.01	14.50	14.71

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

Brief Financials – MPL Standalone (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	111.82	135.42	157.75
PBILDT	13.15	15.95	14.70
PAT	5.27	7.06	6.34
Overall gearing (times)	0.33	0.42	NA
Interest coverage (times)	12.70	17.44	10.07

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: Please refer Annexure-4

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
Fund-based - LT-Term Loan	-	-	September 2028	64.23	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	40.00	CARE A-; Stable / 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	Fund-based - LT-Term Loan	LT	64.23	CARE A-; Stable	1)CARE A-; Stable (25-Feb-22) 2)CARE BBB+; Positive (26-Jul-21) 3)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+ (25-Feb-22) 2)CARE BBB+; Positive / CARE A2 (26-Jul-21) 3)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 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-Term Loan	Simple
2	Fund-based - LT/ ST-Cash 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 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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