Mahalaxmi Rubtech Limited

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.51 (Reduced from 21.46)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	12.55	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	6.05	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 and stable contribution from technical textile division. The ratings further, continue to derive strength from MRTL's comfortable leverage, moderate 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. Ratings also take into cognisance of moderation in company's profitability during FY22 (FY refers to the period April 1 to March 31) with high input costs, which marginally recovered in 9MFY23.

Rating sensitivities: Factors likely to lead to rating actions

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%
- Improvement in overall gearing below 0.50x and comfortable debt coverage indicators

Negative factors

- Decline in TOI to lower than Rs.150 crore or decline in PBILDT margin below 7% on a sustained basis
- Elongation in working capital cycle to beyond 90 days and increase in external borrowings to fund these requirements
- Any large sized debt-funded capex or increase in working capital requirements resulting in deterioration in overall gearing beyond 0.80x or significant deterioration in debt coverage indicators
- Any significant increase in support to subsidiaries adversely impacting the capital structure / liquidity profile of the entity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE's view that Mahalaxmi Rubtech Limited is likely to sustain its financial risk profile supported by stable contribution from its technical textile division. Stable outlook also reflects comfortable capital structure with adequate liquidity.

Detailed description of the key rating drivers:

Key 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 / unsecured loans.

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

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 FY22, it derived 40% of its revenue from the processing division, followed by Trading Division (28%) and remaining 32% together from the technical textiles and weaving divisions.

Stable contribution from technical textile divisions

In its technical textile division, MRTL produces rubber coated fabric used in applications including that in offset printing machines. Since last few years, revenue from technical textile division has the division's TOI has been increasing y-o-y on account of its increased demand backed by acceptance from domestic customers. During FY22, TOI for technical textile stood at Rs.44.85 crore (P.Y.Rs.27.87crore). Further, TOI for the division stood at Rs.43.14 crore during 9MFY23 (Rs.30.77 crore in MFY22). This also translated into better profitability of the division, aiding the overall profitability of the company.

During FY21, company completed capex for expanding is capacity for manufacturing of technical textiles at its plant located at Sanand, Gujarat, wherein it would manufacture plastic/polymer coated fabrics which are used for various purposes including print media (in place of flex banners), window blinds and other similar applications along with modernization of its existing facilities.

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. While income from processing divisions improved to Rs.68.03 crore respectively in FY22 and 9MFY23 (Rs.56.64 crore during FY21), margins from the processing division dropped significantly owing to higher input cost and competitive market.

Comfortable capital structure and moderate debt coverage indicators

Capital structure of MRTL continue to remain comfortable with overall gearing of 0.68 times as on March 31, 2022, though the same increased from 0.42 times as on March 31, 2021 owing to reduction in networth base post with buy-back of shares, alongwith some increase in working capital borrowings. During Oct 2022, company concluded buy-back of few shares which resulted in reduction in networth base, which was funded through internal cash flows and infusion of unsecured loans by promoters.

Net worth of the company stood limited at Rs.74.65 crore at FY22 end (Rs.91.63 crore at FY21 end).

Debt coverage indicators of MRTL continued to remain moderate marked by total debt to GCA of 3.76x (P.Y.: 2.57x) and PBILDT Interest Coverage of 4.17x (P.Y.: 5.72x) as on March 31, 2022.

Company had extended a corporate guarantee to its subsidiary for its working capital limits, amounting to Rs.15.00 crore (increased from Rs.5.50 crore considered during last review). Considering this, adjusted overall gearing of the company calculates to 0.88x at FY22 end. Any further increase in support to subsidiaries and its impact on the credit risk profile of MRTL shall remain a key rating monitorable.

Key Rating Weaknesses

Moderate scale of operations, profitability and networth, with decline in operating profitability during FY22

Scale of operations and profitability of MRTL remained moderate over last three years ended FY22. During FY22, TOI improved by 24% y-o-y but stood moderate at Rs.170 crore (P.Y: Rs.137 Crore). Further, during 9MFY23, company registered sales of Rs.148.50 crore (Rs.134 crore during 9MFY22).

Operating margin of the company moderated to 9.21% during FY22 (P.Y:13.08%). This was on account of higher input costs (raw materials, coal, chemical), which largely depleted the operating profitability of the processing division.

Margin improved to an extent to 10.76% in 9MFY23 with adequate margin from technical textile division, but remained moderate.

With decline in PBILDT margin and increase in interest cost, PAT margin of the company moderated to 2.99% (P.Y: 4.34%) for the year ended FY22.

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. 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 adequacy of gross cash accruals against repayments and moderate utilisation of working capital limits.

The operating cycle of MRTL improved to 51 days during FY22 from 71 days in FY21 due to reduction in both inventory and collection period. The average utilization of MRTL's fund-based limits remained at 70% for trailing twelve months ending February 2023. Further, company has annual debt repayment obligations in range of Rs.3-7 crore in next three years ended FY25, expected to be met out of its internal accruals.

Company had cash and bank balances of Rs.35.72 crore as on December 31, 2022 (Rs.36.53 crore as on March 31, 2022), against which it had also availed overdraft to some extent, while balance amount was unencumbered.

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
Policy on Withdrawal of Ratings

About the company and industry

Incorporated in 1991, Mahalaxmi Rubtech Limited (MRTL) is promoted by Mr. Jeetmal Parekh and his family members. MRTL is engaged in weaving and processing of fabric (for own as well as job work) and manufacturing of technical textiles (rubber offset printing blankets) which find application in screen and offset printing machines. As on March 31, 2022, MRTL had an installed capacity of manufacturing 36.40 lakh meters per annum of fabric and 558 lakh meters per annum of processing capacity. Furthermore, from FY21 onwards, company has introduced a new product in the technical textile division for manufacturing of plastic polymer blankets. These find application in various segments such as pack-tech, agro-tech, geo-tech and print media.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	136.89	170.26	148.50
PBILDT	17.90	15.68	15.99
PAT	5.94	5.09	5.10
Overall gearing (times)	0.42	0.68	0.60
Interest coverage (times)	5.72	4.17	5.00

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	13.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	12.55	CARE BBB+; Stable / CARE A2
Fund-based - ST-Working Capital Limits		-	-	-	2.55	CARE A2
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A2
Term Loan-Long Term		-	-	March, 2027	4.51	CARE BBB+; Stable

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	Term Loan-Long Term	LT	4.51	CARE BBB+; Stable	1)CARE BBB+; Stable (04-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20) 2)CARE BBB+; Stable (02-Apr-19)
2	Fund-based - LT-Cash Credit	LT	13.00	CARE BBB+; Stable	1)CARE BBB+; Stable (04-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-	1)CARE BBB+; Stable (30-Mar-20)

								2)CARE BBB+; Stable (02-Apr-19)
3	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.55	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (04-Apr-22)	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)
4	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	1)CARE A2 (04-Apr-22)	1)CARE A2 (05-Apr-21)	-	1)CARE A2 (30-Mar-20) 2)CARE A2 (02-Apr-19)
5	Fund-based - ST-Working Capital Limits	ST	2.55	CARE A2	1)CARE A2 (04-Apr-22)	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 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-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: 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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