Maral Overseas Limited

May 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	257.18	CARE BBB; Negative	Revised from CARE BBB+; Negative
Short Term Bank Facilities	223.00	CARE A3	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Maral Overseas Limited (MOL) factors in subdued operational performance of the company during FY23 (refers to the period April 1 to March 31) marked by net losses due to high cotton prices with company's inability to pass on increased input cost. Furthermore, weakening of export demand due to global recessionary trends adversely impacted the operational performance on a full year basis. The revision in the rating also factors in lower than envisaged cash accruals for FY23 and moderation in financial risk profile of the company. The ratings are constrained by continuation of MOL under the ambit of Corporate Debt Restructuring (CDR) forum and susceptibility of its profitability margins to volatility in raw material prices, foreign exchange fluctuations risk and its presence in highly competitive market. The ratings however, derive strength from its strong parentage, experienced promoters and management team, its diversified product profile and established marketing tie-ups with leading apparel brands. The ratings are, further strengthened by the geographically distributed operations of the company with low customer concentration risk of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income of company to Rs. 1300 crores with PBILDT Margin of 11% on sustained basis.
- Overall gearing of less than 1.6x

Negative factors

- Decline in total operating income below Rs. 750 crores with PBILDT Margin less than 5% on sustained basis
- Deterioration in overall gearing of more than 2.5x

Analytical approach: Standalone

Outlook: Negative

The negative outlook reflects CARE's expectation of MOL's modest operational performance with leveraged capital structure. The outlook may be revised to Stable based on MOL's ability to scale up profitable operations with improvement in debt metrics and healthy liquidity.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with qualified management team and strong parentage: MOL is a part of LNJ Bhilwara group, which was established in 1960 by Mr. L N Jhunjhunwala. The group is a well-diversified conglomerate with interests in textiles, graphite electrodes, power generation & power engineering consultancy services and IT enabled services. LNJ Bhilwara group has its presence in the entire textile value chain from textile yarns to fabrics, knitwear and denims through its group companies namely BMD Private Limited (rated CARE BBB+; Negative/CARE A2), Maral Overseas Limited, RSWM Limited and BSL Limited. The production units and corporate offices of the Group are spread over 38 locations in India, and the Group employs more than 26,000 people. MOL is currently headed by Mr. Shekhar Agarwal (Chairman and Managing Director) who did his B.Tech. (Mechanical Engineering) from IIT, Kanpur in 1975 and Master of Science in Industrial & Systems Engineering in 1976 from Illinois Institute of Technology, Chicago, USA. He has an experience of more than three decades in this line of business. He is well assisted by a qualified management team having functional experience in related areas.

Diversified product profile and established marketing tie-ups with leading apparel brands: MOL is engaged in manufacturing of cotton yarn, knitted fabrics, processed fabrics and ready-made garments and has presence throughout the textile value chain. The company also owns a fully- integrated dye house plant with latest technology having facility for dying of yarn. The company sells its products in both domestic as well as export market and apart from this a significant portion of the

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

cotton yarn and fabrics manufactured by the company are also used in-house to manufacture fabric and garments which provides better control on the quality of the finished garment. Further, the customer base of MOL is diversified, primarily due to its varied product profile. Being in operations since the last two decades, MOL has established tie-ups with various agents and strong apparel brands like M/s Cecil (Germany), M/s Schiesser (Germany), M/s Joy Sportwear (Germany), M/s Blair (USA), M/s. RNA Resources (Dubai), M/s Reitman (Canada), M/s Marubeni (Japan) etc.

Geographically diversified operations and low customer concentration risk: Being an export-oriented unit, the company derived almost half of its revenue from the export markets. The company exports its products majorly to Far East & Southeast Asian Countries, Europe, North America, Gulf and Middle East, Africa etc. Furthermore, there is low customer concentration risk as the company caters to a large customer base present across the globe.

Key weaknesses

Subdued operational performance in FY23: The company reported moderation of around 6% in total operating income during FY23 as compared to FY22. The company reported subdued profitability during FY23 which was mainly due to volatility in the cotton prices both in the domestic and international markets. The increase in cotton prices could not be passed on completely to the customers due to stiff competition. Further, the garment unit of the company also reported losses during FY23 due to increase in raw materials costs (fabric) which the company was not able to pass to its customers. Furthermore, the increase in wages as per U.P. State Government Policy also contributed to losses in the garment division of the company. However, The company has taken corrective steps to improve the profitability of garment segment and operation of two garment units are consolidated to reduce lease rentals expenses as well as administrative overheads. Furthermore, with stabilization of cotton prices, cost rationalisation measures being taken by the company and expected growth in demand from export markets other than Europe, the company expects turnaround in profitability. The company also has export orders of around Rs. 300 crores in hand as on March 31, 2023, which is expected to provide revenue visibility in short term.

Moderation in financial risk profile: The capital structure of the company has moderated with overall gearing of around 2.3x as on March 31, 2023, as against 1.57x as on March 31, 2022, on account of higher debt availed by company coupled with decrease in net worth base of company due to net losses reported during FY23. During FY23, interest coverage of the company also moderated to 1.5x as against 6.70x during FY22. The moderated in debt coverage indicators was primarily due to lower profitability during FY23.

Susceptibility of profitability margins to volatility in the raw material prices: The basic raw material consumed by MOL to produce yarn is cotton. Cotton prices, which are dependent on the government policies, effect of monsoon, etc. have been highly volatile in the past few years. Furthermore, yarn being a commodity, its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of MOL’s fabric and garment verticals.

Exposure to foreign currency fluctuation risk: MOL is exposed to foreign currency fluctuation risk as the company derives significant portion of its revenue from the export market. Thus, profitability margins of the company remain susceptible to any adverse movement in the foreign currency. The company also imports raw materials which provide the natural hedge to company to some extent. Further, the company hedges the balance forex risk through forward contracts (generally almost 100% of foreign currency exposure is hedged by the company), which mitigates the risk to some extent.

High competition in the garment segment from other export-based countries: In the garment segment, the company faces major competition from China, Bangladesh and other cheap export-based countries which sell garments at lower rates compared to India. Domestic competition has been growing in the garment segment with the international brands entering India. Moreover, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition, and affecting margins.

Liquidity: Adequate

The company reported positive cash flow from operations during FY23 of ~Rs. 15.6 crore as against ~Rs. 34 crore during FY22. The current portion of long-term debt during FY24 is around Rs. 19 crores (scheduled repayment of term loans from banks) against which company expects sufficient cash accruals on the back of stabilisation of cotton prices. The working capital cycle of the company remains modest on account of slightly high inventory days as company’s major raw material cotton is cyclic in nature and the company has to maintain sufficient level of inventory for the entire period. Average inventory period for MOL has remained in the range of 50-65 days on account of MOL’s policy to store good quality cotton which is usually available during the period October- April. Further, around 45-50% of sales of MOL is overseas sales, out of which company receives 30% of its sales in advance and balance 70 days at sight terms (between 25-30 days) and around 90% of its overseas creditors are LC backed in nature. For domestic sales, the company provides credit terms of 30 to 45 days. The average utilization of working capital limits of the company remains at around 75% which provides buffer in case on any cash flow mismatch.

Applicable criteria

Cotton Textile
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Manufacturing Companies
Policy on default recognition
Rating Outlook and Credit Watch
Short Term Instruments

About the company and industry

Industry classification

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

Incorporated in 1989, MOL is a part of LNJ Bhilwara group. The company commenced production in 1992, with setting up of a 20,160 spindles cotton spinning plant for manufacturing of yarn which has increased over the years to 79,056 spindles. The company is engaged in the manufacturing of grey yarn (19,100 MTPA), dyed yarn (4,000 MTPA), knitted fabrics (6,500 MTPA), processed fabrics (7,200 MTPA) and ready-made garments (72 lac pieces per annum) with its manufacturing facilities located in Noida (U.P) and Khargone (M.P.). MOL had approached the CDR forum in July 2008 and the restructuring proposal / package was approved on March 26, 2009. Since then, MOL continues to service its debt as per the CDR terms.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)^
Total operating income	634.19	1,092.61	1041.12
PBILDT	55.90	127.51	34.71
PAT	12.53	66.98	-15.93
Overall gearing (times)	2.43	1.57	2.33
Interest coverage (times)	3.38	6.06	1.50

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
^Basis abridged financials for FY23 reported on BSE on May 4, 2023

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	May 2030	257.18	CARE BBB; Negative
Fund-based-Short Term		-	-	-	195.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	28.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	257.18	CARE BBB; Negative	-	1)CARE BBB+; Negative (15-Nov-22) 2)CARE BBB+; Stable (01-Aug-22)	1)CARE BBB; Stable (27-Oct-21)	1)CARE BBB-; Negative (06-Oct-20) 2)CARE BBB-; Stable (30-Jun-20)
2	Fund-based-Short Term	ST	195.00	CARE A3	-	1)CARE A3+ (15-Nov-22) 2)CARE A3+ (01-Aug-22)	1)CARE A3 (27-Oct-21)	1)CARE A3 (06-Oct-20) 2)CARE A3 (30-Jun-20)
3	Non-fund-based - ST-BG/LC	ST	28.00	CARE A3	-	1)CARE A3+ (15-Nov-22) 2)CARE A3+ (01-Aug-22)	1)CARE A3 (27-Oct-21)	1)CARE A3 (06-Oct-20) 2)CARE A3 (30-Jun-20)

*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-Term Loan	Simple
2	Fund-based-Short Term	Simple
3	Non-fund-based - ST-BG/LC	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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About us:

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