Mahalaxmi Rubtech Limited

August 10, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	17.51	CARE BBB+ (RWD)	Placed on Rating Watch with Developing Implications
Long-term/Short-term bank facilities	12.55	CARE BBB+/CARE A2 (RWD)	Placed on Rating Watch with Developing Implications
Short-term bank facilities	6.05	CARE A2 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Mahalaxmi Rubtech Limited (MRT) have been placed on 'Rating Watch with Developing Implications (RWD)' in view of the recent announcement on the Bombay Stock Exchange (BSE) regarding a scheme of arrangement for the demerger of the two business divisions of MRT into separate companies, namely, Mahalaxmi Fabric Mills Private Limited (MFMPL; formerly known as 'Sonnet Colours Pvt Ltd') and Globale Tessile Private Limited (GTPL), subject to necessary approvals from regulators and stakeholders. CARE Ratings will closely monitor the developments in this regard and will review the ratings once the exact implications of the above on the credit risk profile of MRT are clear.

The ratings assigned to the bank facilities of MRT continue to derive strength from its experienced and resourceful promoters, the established track record of operations in the textile processing and weaving businesses, and the stable contribution from the technical textile division. The ratings further continue to derive strength from MRT'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, its moderate profitability and return on capital employed (ROCE) along with a small net worth base, and the regulatory risk associated with the compliance to stringent pollution control norms for the textile processing business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Volume-driven growth in the total operating income (TOI) beyond ₹400 crore.
- Sustained operating profitability (profit before interest, lease rentals, depreciation and taxation [PBILDT] margin) of more than 12% and ROCE of 15%.
- Improvement in overall gearing below 0.50x and comfortable debt coverage indicators.

Negative factors

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

Analytical approach: Standalone

Outlook: Not applicable

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

Detailed description of the key rating drivers

Proposed scheme of arrangement of the demerger of two divisions of MRT

MRT has made an announcement regarding the observation letter received from BSE Limited, on August 01, 2023, regarding the scheme of arrangement for the demerger of the two business divisions of MRT into separate group companies.

The scheme of arrangement provides for the demerger of the traditional textiles processing and wind power divisions of MRT (the demerged company), including the related assets and liabilities of these divisions, along with MRT's existing investment in its wholly owned subsidiary company, viz, Mahalaxmi Exports Private Limited, and vesting the same into Mahalaxmi Fabric Mills Private Limited (MFMPL; referred to as 'first resulting company'). The scheme also provides for the demerger of the trading textiles division of MRT, including the related assets and liabilities of this division, to Globale Tessile Private Limited (GTPL; referred to as 'second resulting company'). The two business divisions proposed to be demerged from MRT together contributed around 65% to the company's TOI during 9MFY23 (68% during FY22). After the demerger, the rubber and technical textiles and weaving divisions will remain with MRT.

The demerger is proposed to enable a simpler group structure to focus on the core competence of each of these three divisions and deploy technical expertise to manage these divisions more effectively. The proposed scheme of demerger is pending for approval from shareholders and the National Company Law Tribunal (NCLT). Pending clarity on the exact implications of the above on the credit risk profile of MRT, CARE Ratings Limited (CARE Ratings) has placed the ratings of the bank facilities of MRT on 'Rating Watch with Developing Implications'.

Key strengths

Experienced and resourceful promoters

Jeetmal Parekh, Chairman and Promoter of MRTL, has more than four decades of experience in the textile industry. He is closely involved in the strategic decision-making for the company. The operations of MRTL are managed by his sons, Rahul Parekh and Anand Parekh.

Rahul Parekh is associated with MRTL since 1992 and looks after the technical textile division of the company. Anand Parekh, associated with MRTL since 1995 (Director since 2008), looks after the processing and exports division. The top management is further assisted by experienced and qualified professionals at various levels in the organisation. The promoters of MRTL have demonstrated support to the overall operations of the company by infusing funds in the form of equity and unsecured loans.

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 the trading division (28%), and the remaining 32% together from the technical textiles and weaving divisions.

Stable contribution from the technical textile division

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

During FY23 (as per abridged results), the TOI of the technical textiles division stood at ₹69.44 crore (around 35% of the TOI).

During FY21, the company completed the capex for expanding is capacity for the manufacturing of technical textiles at its plant located at Sanand, Gujarat, wherein it will manufacture plastic or polymer coated fabrics that are used for various purposes, including print media (in place of flex banners), window blinds and other similar applications, along with the modernisation 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 a job-work basis. While income from the processing division improved to

₹68.03 crore and ₹51.02 crore, respectively, in FY22 and 9MFY23 (₹56.64 crore during FY21), margins from the processing division dropped significantly owing to higher input costs and the competitive market.

Comfortable capital structure and moderate debt coverage indicators

The capital structure of MRTL continues to remain comfortable with an overall gearing of 0.68x as on March 31, 2022, although the same increased from 0.42x as on March 31, 2021, owing to a reduction in the net worth base with the buy-back of shares, along with some increase in the working capital borrowings. During October 2022, the company concluded the buy-back of a few shares, which resulted in a reduction in the net worth base, which was funded through internal cash flows and the infusion of unsecured loans by the promoters.

The net worth of the company stood limited at ₹74.65 crore at FY22 end (₹91.63 crore at FY21 end).

The debt coverage indicators of MRTL continued to remain moderate, marked by total debt (TD) to gross cash accruals (GCA) of 3.76x (PY: 2.57x) and PBILDT interest coverage of 4.17x (PY: 5.72x) as on March 31, 2022.

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

As per FY23 (Abridged) financials, the TD of MRT stood at ₹42.12 crore, mainly comprising working capital borrowings of ₹31.95 crore, while the remaining comprised term loans. With that, the overall gearing of MRT continued to stand comfortable at 0.52x with a PBILDT interest coverage of 4.59x at FY23 end.

Key rating weaknesses

Moderate scale of operations, profitability, and net worth

The scale of operations and profitability of MRTL remained moderate over the last three years ended FY22. During FY22, the TOI improved by 24% y-o-y but stood moderate at ₹170 crore (PY: ₹137 crore). Furthermore, during 9MFY23, the company registered sales of ₹148.50 crore (₹134 crore during 9MFY22).

The operating margin of the company moderated to 9.21% during FY22 (PY: 13.08%). This was on account of the higher input costs (raw materials, coal, chemicals), which largely depleted the operating profitability of the processing division. The margin improved to an extent to 10.76% in 9MFY23 with an adequate margin from the technical textiles division but remained moderate.

With a decline in the PBILDT margin and an increase in the interest cost, the profit-after-tax (PAT) margin of the company moderated to 2.99% (PY: 4.34%) for the year ended FY22.

During FY23 (Abridged), MRT registered sales of ₹199.96 crore with a PBILDT margin and PAT margin at 10.02% and 2.91%, respectively.

Intense competition owing to the 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 unorganised 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, the limited value addition and low technology intensity (consequently translating into thin profit margins) limits their bargaining power vis-à-vis their customers.

Cyclical industry along with regulatory risks associated with the compliance of stringent pollution control norms

The textile industry is cyclical in nature and closely follows the macroeconomic business cycles. Furthermore, the prices of raw materials and finished goods are determined by the global demand-supply scenario. Hence, any shift in the macroeconomic environment globally will have an impact on the domestic textile industry. Furthermore, textile processing requires compliance to stringent norms set by pollution control authorities and any violation in the compliance to these norms or any adverse changes in these norms will adversely impact MRTL's operations.

Liquidity: Adequate

MRTL's liquidity continues to remain adequate, marked by adequacy of the GCA against repayments and moderate utilisation of the working capital limits.

The operating cycle of MRTL improved to 51 days during FY22 from 71 days in FY21 due to a reduction in both, the inventory and collection period. The average utilisation of MRTL's fund-based limits remained at around 80% for the trailing 12 months ending July 31, 2023. Furthermore, the company has annual debt repayment obligations in the range of ₹3-7 crore in the three years ended FY25, expected to be met out of its internal accruals.

The company had cash and bank balances of ₹32.95 crore as on March 31, 2023 (₹35.72 crore as on December 31, 2022), against which it had also availed overdraft (OD) to some extent, while the 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

Industry classification

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

Incorporated in 1991, MRTL is promoted by Jeetmal Parekh and his family members. MRTL is engaged in the 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 metre per annum of fabric and 558 lakh metre per annum of processing capacity. Furthermore, from FY21 onwards, the company has introduced a new product in the technical textiles division for the manufacturing of plastic polymer blankets. These find application in various segments such as pack-tech, agro-tech, geo-tech, and print media.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	136.89	170.26	199.96
PBILDT	17.90	15.68	20.03
PAT	5.94	5.09	5.82
Overall gearing (times)	0.42	0.68	0.52
Interest coverage (times)	5.72	4.17	4.59

A: Audited. Note: The above results are the latest financial results available.

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 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 (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+ (RWD)
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	12.55	CARE BBB+ / CARE A2 (RWD)
Fund-based - ST-Working Capital Limits		-	-	-	2.55	CARE A2 (RWD)
Non-fund-based - ST-BG/LC		-	-	-	3.50	CARE A2 (RWD)
Term Loan-Long Term		-	-	March, 2027	4.51	CARE BBB+ (RWD)

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	Term Loan-Long Term	LT	4.51	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (04-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-
2	Fund-based - LT-Cash Credit	LT	13.00	CARE BBB+ (RWD)	-	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (04-Apr-	1)CARE BBB+; Stable (05-Apr-21)	-

						22)		
3	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	12.55	CARE BBB+ / CARE A2 (RWD)	-	1)CARE BBB+; Stable / CARE A2 (31-Mar-23) 2)CARE BBB+; Stable / CARE A2 (04-Apr-22)	1)CARE BBB+; Stable / CARE A2 (05-Apr-21)	-
4	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2 (RWD)	-	1)CARE A2 (31-Mar-23) 2)CARE A2 (04-Apr-22)	1)CARE A2 (05-Apr-21)	-
5	Fund-based - ST-Working Capital Limits	ST	2.55	CARE A2 (RWD)	-	1)CARE A2 (31-Mar-23) 2)CARE A2 (04-Apr-22)	1)CARE A2 (05-Apr-21)	-

*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-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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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