Mewar Polytex Limited

March 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term banking facilities	37.79 (Reduced from 48.92)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	51.13 (Enhanced from 40.00)	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the ratings of Mewar Polytex Limited (MPL), CARE Ratings Limited (CARE Ratings) has taken a combined analytical view of MPL and its group entities Harmony Plastics Private Limited (HPPL; CARE A-;Stable/CARE A2+), Sun Polytex Private Limited (SPPL; CARE A-;Stable/CARE A2+), and Plasti Weave Industries LLP (PWI; CARE A-;Stable/CARE A2+), together referred to as the Mewar group. These entities operate in a similar line of business with operational and financial linkages, have common promoters, and operate under a common management.

Ratings assigned to bank facilities of MPL derive strength from the long track record of operations of the Mewar group in the manufacturing of woven and non-woven fabrics, experienced management, operational synergies among group entities and established presence of the US-based joint venture (JV) partner of HPPL. Ratings continue to factor in the group's moderate scale of operations, healthy profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

However, the ratings remain constrained due to customer concentration risk, the group's presence in the highly competitive and fragmented industry and susceptibility of the group's profitability to fluctuations in the raw material prices as well as foreign exchange rate.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Substantially growing scale of operations while maintaining healthy operating profitability above 12%
- Sustaining comfortable capital structure marked by overall gearing below 0.50x and total debt to profit before interest, lease, depreciation and tax (TD/PBILDT) below 2x

Negative factors:

- Deteriorating scale of operations to below ₹450 crore and PBILDT margin below 9% on sustained basis
- Deteriorating TD/PBILDT above 3x on sustained basis
- Moderating overall gearing above 1.00x on sustained basis
- Elongating operating cycle above 150 days

Analytical approach: Combined

For the purpose of analysis, combined view of the entities (i.e. HPPL, SPPL, MPL and PWI) belonging to the Mewar group has been considered as all these entities operate in a similar line of business with operational and financial linkages, have common promoters, and operate under a common management.

Outlook: Stable

The 'Stable' outlook on the ratings reflects that the Mewar group shall continue to benefit from its strong business risk profile supported by its established presence in the technical textile industry, particularly in the export market, with a product portfolio having diversified applications. CARE Ratings Limited (CARE Ratings) expects group to maintain its comfortable financial risk profile supported by continued low debt levels and healthy free cash and bank balance and liquid investments.

Detailed description of the key rating drivers

Key strengths

Experienced promoters

B.H. Bapna, founder promoter of the Mewar group, has an extensive industry experience of more than four decades and looks after the overall management of the group. He is assisted by his son Sandeep Bapna and his nephew Vinod Bapna (his nephew)

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

along with other family members. Promoters have more than two decades of industry experience and are also involved in the daily operations of the group.

Established track record of operations and operational synergies among group

The 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 and shoe covers, among others.

The group has 12 manufacturing facilities with total installed capacity of 51,000 MTPA for PP Fabric and 9 crore pieces for shoe covers located in the states of Rajasthan (nine units) and Gujarat (three units).

Anita Plastics Incorporation (API), an associate of the Mewar group, is the trading and marketing arm in USA for MPL, PWI and SPPL. All entities of the Mewar group operate under a common management and have a common distribution network as well as raw material procurement arrangement.

Established presence of US-based JV partner of HPPL

The Mewar group derives benefit of its association with the US-based JV partner Alpha Protech Engineered Product Inc. (Alpha), which holds 41.66% as on March 31, 2023 (41.66% as on March 31, 2022) in HPPL.

Alpha is a subsidiary of US-based Alpha Pro Tech Ltd (APTL; established in 1989) which has a presence of more than three decades in the technical textile industry. ATPL is the largest customer of HPPL as it contributed around 50%-60% of total sales of HPPL during last three years ending FY23 and 9MFY24.

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 weatherisation 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 and dental distributors.

Moderate scale of operations along with healthy profitability

Total operating income (TOI) of the Mewar group remained stable at ₹601.11 crore in FY23 as against ₹588.73 crore in FY22. While there was some moderation in the sales volume in FY23, the same was compensated by better sales realizations.

The group's operating PBILDT margin, over last few years, has remained healthy in the range of 11-12%. With moderate increase in the depreciation cost (due to completion of the capital expenditure (capex) and interest and finance cost (due to availment of term debt), profit after tax (PAT) margin moderated, however continued to remain adequate at 3.77% in FY23 (FY22: 4.37%). The group reported gross cash accruals (GCA) of ₹57.94 crore in FY23 (FY22: ₹57.69 crore).

For 9MFY24, the group reported a TOI of ₹389.58 crore (9MFY23: ₹472.80 crore). The moderation in the TOI in 9MFY24 on a y-o-y basis was due to moderation in the sales realisation despite growth in the sales volume. PBILDT margin improved to 17.03% in 9MFY24 supported by change in the sales mix towards higher grade products and better absorption of the fixed cost with completion of the major capex in MPL.

With adequate order book of around ₹170 crore as on December 31, 2023, CARE Ratings expects the Mewar group's TOI in FY24 to remain in-line with FY23 level while PBILDT margin is expected to sustain at around 13-15% owing to economies of scale and better sales mix.

Comfortable capital structure and debt coverage indicators

Capital structure of the Mewar group continued to remain comfortable with an improvement in the overall gearing from 0.84x as on March 31, 2022 to 0.63x as on March 31, 2023.

Promoters have infused unsecured loans in the group (which stood at ₹35.07 crore at December 31, 2023). These are sub-ordinated to the bank loan and hence, considered as part of the net worth. With healthy accretion of profits, the Mewar group's net-worth grew to ₹261.88 crore as on March 31, 2023 and ₹285.56 crore as on December 31, 2023. With healthy cash accruals on the back of the improvement in the profitability in 9MFY24, the group has pre-paid around ₹10 crore of term loan leading to further moderation in the overall gearing at around 0.53x as on December 31, 2023.

With moderation in the debt level along with healthy profitability, the Mewar group's debt coverage indicators marked by PBILDT interest coverage and TDGCA improved and continued to remain comfortable at 6.04x and 2.83x respectively in FY23 and 7.53x and 2.03x respectively in 9MFY24.

The Mewar group is planning capex of around ₹63 crore in next two years i.e. FY24-FY25 which includes capacity expansion in PWI for around ₹30 crore and solar plants in PWI and HPPL for around ₹33 crore. The capex will be funded from the term loan of ₹13 crore (proposed) and balance from the internal accruals (including available cash and bank balance) and promoter contribution. With no major debt-funded capex plans in the medium term, CARE Ratings expects the group's capital structure to improve further and continue to remain comfortable.

Key weaknesses

Customer concentration risk

The Mewar group has a concentrated customer profile with top five customers contributing more than 95% of its net sales. The major customer in MPL, SPPL and PWI is its US-based associate API, which is the marketing arm of the group. API has a diversified customer base of around 60-70 customers having operations across industries including food packaging, agriculture, lamination, coating and geotextile, among others.
For HPPL, the major customer is US-based APTL. The customer concentration risk is mitigated to an extent considering the strong customer base of API and ATPL, having presence across multiple industries.

Presence in a highly competitive and fragmented industry albeit good growth prospects

The technical textile industry is highly fragmented with presence of large number of unorganised and organised manufacturers along with competition from rising imports mainly from South Asian market. With 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. However, specialized applications such as Medtech (Medical Textile), Protech (Protective Textile), Buildtech (Building Textile) among others have a strong customer stickiness with requirement to adhere to the prescribed quality, thus giving entities (such as the Mewar group) a competitive edge in the regulated export markets such as USA and Europe.
Presently, the Indian technical textile industry is estimated at around USD 22 billion which is expected to grow at a health rate of around 8-10% annually. 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 which augurs well for the technical textile segment.

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 (Poly Propylene/High-density Polyethylene), Poly Vinyl Chloride (PVC) coated sole and synthetic rubber. Majority of these raw materials are crude oil derivatives. Hence, any steep volatility in international crude oil prices or foreign exchange rate directly impacts the prices of plastic granules, which may affect the profitability of the group depending upon the pass-on of such an increase to the end users; given raw materials forms around 50-55% of TOI. To mitigate this risk, the group undertakes periodic price revisions with its customers.
In FY23, export sales contributed around 70% (FY22: around 64%) of the total sales for all four entities, which exposes them to forex fluctuation risk. To mitigate the same, entities partially hedge their forex exposure, they also benefit from a natural hedge by availing packing credit facility in foreign currency as well as movement of raw material price in tandem with USD. In FY23, the group earned foreign exchange of ₹14.12 crore (FY22: ₹9.71 crore). This apart, profitability also remains exposed to volatile freight rates, though the same is passed on, on actual basis, in majority of the entities.

Liquidity: Adequate

The group has adequate liquidity with sufficient cushion available considering healthy cash accruals against debt repayment obligations, interest-free unsecured loans by promoters to support operations and moderate utilization of working capital limits. Average utilisation of fund-based working capital limits remained moderate at around 61% and 63% respectively for the Mewar group and MPL (Standalone) for past 12 months ended November 2023.
Cash flow from operation improved significantly from ₹2.79 crore in FY22 to ₹103.60 crore in FY23 with the rationalisation of the inventory level which was high at FY22-end due to slowdown in the demand as well as increase in the price level. Liquidity of the group is further supported by the availability of free cash and bank and liquid investment of ₹34.27 crore as on March 31, 2023, which increased to around ₹100 crore as on December 31, 2023.
The Mewar group has lean debtor days of 23 in FY23 (FY22: 23 days). The group offers credit period of 30 to 45 days to its domestic customers while in case of exports mainly to APTL, credit period of seven days is given for woven fabric and 15-30 days for non-woven fabric. The group procures majority of its raw material from Reliance Industries Limited to whom the payment is made within 5-7 days, while it gets credit period of around 15-30 days from other suppliers. Operating cycle increased from 126 days in FY22 to 135 days in FY23 mainly due to increase in the raw material inventory to cater the envisaged demand.

Assumptions/Covenants: Not applicable

Environment, social and governance risk (ESG) risks: Not applicable

Applicable criteria

Policy in Default Recognition
Consolidation
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Plastic products-Industrial

The Udaipur-based (Rajasthan) Mewar group is engaged in manufacturing of technical textiles through four entities, HPPL, MPL, SPPL, and PWI. The group has total installed capacity of 51,000 Metric Tonnes per Annum (MTPA) for PP fabrics and 9 crore pieces for shoe covers as on March 31, 2023.
The product portfolio includes polypropylene (PP) and high-density polyethylene (HDPE)- based woven as well as non-woven fabrics, and protective apparels such as shoe covers and sleeve protectors and bouffant caps through various manufacturing facilities located in Rajasthan and Gujarat. These products find application across industries, such as cement, food, pharmaceuticals, chemical, construction, and healthcare.

MPL (CIN: U25201RJ1979PLC001879) was initially incorporated as a private limited company in 1979 by B.H. Bapna and his family. In 1994, it was reconstituted as a public limited company. It has installed capacity of 16,000 MTPA as on March 31, 2023.

Brief Financials (₹ crore) Mewar Group (Combined)	March 31, 2022 (UA)	March 31, 2023 (UA)	9MFY24 (P)
Total operating income	588.72	601.11	389.58
PBILDT	67.22	69.67	66.35
PAT	25.72	22.64	28.89
Overall gearing (times)	0.84	0.63	0.53
Interest coverage (times)	8.22	6.04	7.53

UA: Un-audited, as audited financials are combined by the analytical team based on line-by-line addition and netting off the intergroup transactions; P: Provisional; Note: The above results are the latest financial results available.

Brief Financials (₹ crore) MPL (Standalone)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (P)
Total operating income	223.21	201.17	178.44
PBILDT	16.56	22.75	25.11
PAT	6.42	6.03	8.67
Overall gearing (times)	1.09	1.00	0.60
Interest coverage (times)	8.07	5.18	6.44

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

Status of non-cooperation with previous CRA: Acuite has classified MPL's rating under 'Issuer not Cooperating' vide its press release dated May 24, 2023, on account of inadequate information from the company to carry out review.

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to 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-Term Loan	-	-	-	September 2028	37.79	CARE A-; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	51.13	CARE A-; Stable / CARE A2+

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	37.79	CARE A-; Stable	-	1)CARE A-; Stable (06-Mar-23)	1)CARE A-; Stable (15-Mar-22) 2)CARE A-; Stable (25-Feb-22) 3)CARE BBB+; Positive (26-Jul-21) 4)CARE BBB+; Positive (06-Apr-21)	1)CARE BBB+; Positive (07-Apr-20)
2	Fund-based - LT/ ST-Cash Credit	LT/ST*	51.13	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (06-Mar-23)	1)CARE A-; Stable / CARE A2+ (15-Mar-22) 2)CARE A-; Stable / CARE A2+ (25-Feb-22) 3)CARE BBB+; Positive / CARE A2	1)CARE BBB+; Positive / CARE A2 (07-Apr-20)

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
							(26-Jul-21) 4)CARE BBB+; Positive / CARE A2 (06-Apr-21)	

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Pradeep Kumar V Senior Director **CARE Ratings Limited** Phone: +91-44-2850 1001 E-mail: pradeep.kumar@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in Nikita Goyal Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5616 E-mail: nikita.goyal@careedge.in Jignesh Trivedi Assistant Director **CARE Ratings Limited** E-mail: jignesh.trivedi@careedge.in

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.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in