

Mahalaxmi Rubtech Limited

April 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / short-term bank facilities	-	-	Revised to CARE BBB; Stable / CARE A3+ from CARE BBB+ / CARE A2 (Rating Watch with Developing Implications) and Withdrawn and removed from Rating Watch with Developing Implications; Stable outlook assigned
Long-term bank facilities	-	-	Revised to CARE BBB; Stable from CARE BBB+ (Rating Watch with Developing Implications) and Withdrawn and removed from Rating Watch with Developing Implications; Stable outlook assigned
Short-term bank facilities	-	-	Revised to CARE A3+ from CARE A2 (Rating Watch with Developing Implications) and Withdrawn and removed from Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the outstanding ratings assigned to the bank facilities of Mahalaxmi Rubtech Limited (MRT) to 'CARE BBB; Stable/ CARE A3+' from 'CARE BBB+ / CARE A2 (Rating Watch with Developing Implications)' and withdrawn the same with immediate effect. This has been done at the request of MRT and a 'No Objection Certificate' from the bank that has sanctioned the facilities rated by CARE Ratings.

The revision in the ratings prior to its withdrawal takes into account likely reduction in company's scale of operations following approval of a scheme of arrangement for the demerger of two business divisions of MRT into separate companies, namely, Mahalaxmi Fabric Mills Private Limited (MFMPPL; formerly known as 'Sonnet Colours Pvt Ltd') and Globale Tessile Private Limited (GTPL) by National Company Law Tribunal (NCLT) order dated March 04, 2024. The demerger scheme shall be applicable from April 01, 2022.

The ratings 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.

Analytical approach: Standalone

Outlook: Stable

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

Detailed description of key rating drivers

Key strengths

Scheme of arrangement of demerger of two divisions of MRT

National Company Law Tribunal (NCLT) vide its order dated March 04, 2024, approved 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 traditional textiles processing and wind power divisions of MRT (the demerged company), including related assets and liabilities of these divisions, MRT's existing investment in its wholly owned subsidiary company, Mahalaxmi Exports Private Limited, and vesting it into Mahalaxmi Fabric Mills Private Limited (MFMPPL; referred to as 'first resulting company'). The scheme also provides for demerger of the trading textiles division of MRT, including 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 64% to the company's TOI during 9MFY24 (65% during FY23). 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

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

to manage these divisions more effectively. After the demerger, two divisions namely the rubber/technical textiles and weaving divisions will remain with MRT. Cash accruals from these two divisions are sufficient to cater to loan requirements owing to good profitability and limited debt, though scale of MRT shall reduce significantly with the resultant division contributing only around 35% of the company's TOI.

Experienced and resourceful promoters

Jeetmal Parekh, Chairman and promoter of MRT has more than four decades of experience in the textile industry. He is closely involved in strategic decision making for the company. MRT's operations are managed by his sons, Rahul Parekh, and Anand Parekh. Rahul Parekh is associated with MRT since 1992 and looks after the technical textile division. Anand Parekh, associated with MRT since 1995 [director since 2008], looks after processing and exports division. The top management is further assisted by experienced and qualified professionals across levels in the organization. MRT's promoters have demonstrated support to the overall operations by infusing funds as equity / unsecured loans.

Established track record of operations in the textile industry

MRT has a track record of over two decades in the textile industry and has well-established relationships with its customers and suppliers. MRT 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. In FY23, it derived 35% of its revenue from the technical textiles and weaving divisions and remaining 65% together from the traditional textile and trading divisions.

Stable contribution from technical textile divisions

In its technical textile division, MRT produces rubber-coated fabric used in applications including offset printing machines. Since the last few years, revenue from the technical textile division has been increasing y-o-y considering increased demand and acceptance from domestic customers. In FY23, TOI for technical textile stood at ₹69.44 crore (PY: ₹44.85 crore). Further, TOI for the division stood at ₹55.68 crore in 9MFY24 (₹50.29 crore in 9MFY23). This also translated into better profitability of the division, aiding the company's overall profitability.

Comfortable capital structure and moderate debt coverage indicators

MRT's capital structure continues to remain comfortable with overall gearing of 0.54x as on March 31, 2023, improved from 0.68x as on March 31, 2022. Net worth of the company stood moderate at ₹81.47 crore at FY23 end (₹74.65 crore at FY22-end). Debt coverage indicators of MRT continued to remain moderate, marked by total debt to gross cash accruals (TD/GCA) of 3.22x (PY: 3.76x) and profit before interest, lease rentals, depreciation, and taxes (PBILDT) interest coverage of 3.46x (PY: 4.17x) as on March 31, 2023.

Key weaknesses

Moderate scale of operations, profitability, and net worth

MRT's scale of operations and profitability have remained moderate over three-years ended FY23. In FY23, TOI improved by 18% y-o-y but stood moderate at ₹200.53 crore (PY: ₹170.26 crore). Furthermore, in 9MFY24, company registered sales of ₹152.72 crore (₹148.50 crore in 9MFY23).

Operating margin of the company moderated to 7.53% in FY23 (PY:9.21%). This was due to higher input costs (raw materials, coal, and chemical), which largely depleted operating profitability of the processing division.

Margin improved to an extent to 9.96% in 9MFY24 with adequate margin from technical textile division but remained moderate. Profit after taxes (PAT) margin stood moderate at 2.91% (PY: 2.99%) for FY23.

Intense competition from the fragmented textile industry

The textile weaving and processing industry is highly fragmented with the presence of several 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, limited value-addition and low technology intensity (consequently translating into thin profit margins), limits their bargaining power against their customers.

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

Textile industry is cyclical and closely follows macro-economic business cycles. Raw material and finished goods prices are determined by global demand-supply scenario. Hence, shift in the macro-economic environment globally would have an impact on the domestic textile industry. Furthermore, textile processing requires compliance to stringent norms set by pollution control authorities and violation in compliance to these norms or adverse change in norms would adversely impact MRT's operations.

Liquidity: Not applicable

Applicable criteria

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Cotton Textile](#)

[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 1991, MRT is promoted by Jeetmal Parekh and his family members. MRT is engaged in weaving and processing of fabric (for own and job work) and manufacturing technical textiles (rubber offset printing blankets), which find application in screen and offset printing machines. As on March 31, 2023, MRT had an installed capacity of manufacturing 36.40 lakh meters per annum of fabric and 558 lakh meters per annum of processing capacity. From FY21 onwards, the company introduced a new product in the technical textile division for manufacturing plastic polymer blankets. These find application in segments such as pack-tech, agro-tech, geo-tech, and print media.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (Prov.)
Total operating income	170.26	200.53	152.72
PBILDT	15.68	15.10	15.21
PAT	5.09	5.84	5.05
Overall gearing (times)	0.68	0.54	NA
Interest coverage (times)	4.17	3.46	6.21

A: Audited Prov,: Provisional, NA: Not Available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	0.00	Withdrawn
Fund-based - ST-Working Capital Limits		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	March, 2027	0.00	Withdrawn

Annexure-2: Rating history for 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	-	-	1)CARE BBB+ (RWD) (10-Aug-23)	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	-	-	1)CARE BBB+ (RWD) (10-Aug-23)	1)CARE BBB+; Stable (31-Mar-23) 2)CARE BBB+; Stable (04-Apr-22)	1)CARE BBB+; Stable (05-Apr-21)	-

3	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	-	-	1)CARE BBB+ / CARE A2 (RWD) (10-Aug- 23)	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	-	-	1)CARE A2 (RWD) (10-Aug- 23)	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	-	-	1)CARE A2 (RWD) (10-Aug- 23)	1)CARE A2 (31-Mar- 23) 2)CARE A2 (04-Apr- 22)	1)CARE A2 (05-Apr- 21)	-

LT: Long term; ST: Short term; LT/ST: 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-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 complexity levels of 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

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About us:

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