

## Maral Overseas Limited

August 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	198.32 (Reduced from 247.73)	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	266.94 (Enhanced from 217.53)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Maral Overseas Limited (MOL) factors in its strong parentage – being part of LNJ Bhilwara group, experienced promoters and management team, diversified product profile and established marketing tie-ups with leading apparel brands. The ratings are further strengthened by company's geographically distributed operations and broad customer base. However, the ratings are constrained by weak operational performance marked by moderation in the profitability and debt coverage indicators owing to macro-economic headwinds faced during H1FY24 (refers to the period from April 1 to September 30), and susceptibility of its profitability margins to volatility in raw material prices, foreign exchange fluctuations risk and its presence in highly competitive market.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Uptick in demand with improvement in sales and PBILDT (Profit before interest, lease rentals, depreciation and taxes) margin of 12% on sustained basis.
- Improvement in capital structure marked by overall gearing below 1.80x.

#### Negative factors

- Decline in total operating income below Rs. 450 crores with PBILDT margin below 5% on a sustained basis.
- Persistently high overall gearing and moderate debt coverage indicators, coupled with stretched liquidity resulting from lower profitability.

### Analytical approach: Standalone

#### Outlook: Negative

The outlook has been revised from "Stable" to "Negative" owing to CARE's expectation of prolonged demand recovery and volatile geopolitical conditions, which could further strain the company's profitability. However, the outlook may be revised to "Stable" in the event of improvement in the garment business, supported by sustained orders from global brands.

### 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. 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

from Illinois Institute of Technology, Chicago, USA. He has an experience of more than four 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**

Maral Overseas Limited (MOL) is engaged in the manufacturing of cotton yarn, knitted fabrics, processed fabrics, and ready-made garments, with a presence throughout the textile value chain. The company also operates a fully integrated dye house plant with the latest technology for yarn dyeing. MOL sells its products in both domestic and export markets. Additionally, a significant portion of the cotton yarn and fabrics manufactured by the company is used in-house to produce fabric and garments, providing better control over the quality of the finished garments.

Furthermore, MOL's customer base is diversified, primarily due to its varied product profile. Having been in operation for the last two decades, MOL has established tie-ups with various agents and strong apparel brands across its value chain.

#### **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. Export sales stood at Rs 431.53 crore (PY: Rs 432.67 crore) equivalent to 45% of its total revenue in FY24 (refers to the period from April 01 to March 31).

However, given the recent political unrest in Bangladesh, there could be potential impacts on operations as the company had sales of approximately Rs 95.83 crore to Bangladesh, which represents about 9.97% of the total sales in FY24. Additionally, if the situation in Bangladesh persists, textile manufacturers might shift their production to India, presenting a potential export opportunity for Indian companies. Any major developments in this regard remains a key monitorable

#### **Modest working capital cycle**

The working capital cycle of the company remains modest at 94 days (PY: 78 days), with a slight moderation due to higher inventory days. This is because the company's major raw material, cotton, is cyclical in nature, requiring the company to maintain sufficient inventory levels throughout the year. The average inventory period for MOL has remained in the range of 60-70 days, as the company stores good quality cotton, which is typically available from October to April.

Additionally, the collection period stood at 42 days, as the company allows a credit period of 30 to 45 days to its domestic customers. For export business, some payments are received in advance, while the remaining amounts are received on a days-at-sight basis.

#### **Key Weaknesses**

##### **Weak operational performance with slight improvement in second half of fiscal year**

The company reported a Total Operating Income (TOI) of Rs 964.81 crore in FY24 (PY: Rs 1029.75 crore), reflecting a slight decline due to lower realizations for yarn and fabric, driven by a correction in cotton prices and reduced demand in the garment segment amid volatile geopolitical conditions. However, PBILDT margins saw a modest improvement in FY24 at 4.35% (PY: 2.40%), attributed to better performance in the second half of the fiscal, income from provisions written back, and cost-saving measures such as the consolidation of two garment plants.

Despite these improvements, the company continues to report net loss due to high depreciation expense. Looking ahead, with the stabilization in realizations and the revenue contributions from the recently completed Melange plant, there is an expectation of topline improvement in the medium term. This improvement is further supported by anticipated orders in the garment segment. Additionally, the political unrest in Bangladesh is likely to increase export business, contributing to the overall growth in later half of the year.

**Q1FY25:** In Q1FY25 (refers to the period from April 01 to June 30), the company reported TOI of Rs 258.65 crore along with PBILDT margin of 4.37% backed by continued improvement in yarn and fabric business.

##### **Moderation in financial risk profile**

The capital structure of the company has continued to remain moderate with overall gearing of around 3.64x as on March 31, 2024, as against 2.67x as on March 31, 2023, on account of higher debt availed by company coupled with decrease in net worth base of company due to net losses reported during FY24. During FY24, interest coverage of the company remained moderate at 1.24x as against 1.07x during FY23. The moderation in debt coverage indicators was primarily due to lower profitability during FY24.

##### **Susceptibility of profitability margins to volatility in the raw material prices**

The primary raw material used by MOL for yarn production is cotton. Over the past few years, cotton prices have been highly volatile due to factors such as government policies and monsoon effects. Additionally, as yarn is a commodity, its price fluctuations can significantly impact the profitability margins of MOL's fabric and garment divisions.

#### 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 natural hedge to company to some extent. Further, the company hedges the balance forex risk through forward contracts, 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 significant competition from China, Bangladesh, and other low-cost export-based countries that offer garments at lower prices compared to India. Bangladesh, in particular, has been experiencing economic distress, which might impact company's operation. Additionally, domestic competition has been intensifying with the entry of international brands into India. Exporters affected by the slowdown in exports are redirecting their capacity to the domestic market, further increasing competition and impacting margins.

#### Liquidity: Adequate

The liquidity profile of the company is adequate as marked by gross cash accruals of Rs 64.17 crore as against repayment obligation of Rs 36.14 crore. The average utilization of fund-based limits stood at 87% for the past 12 months ending June 2024 and the current ratio stood at 0.93x as on March 31, 2024. The company has free cash and a bank balance of Rs. 4.98 crore as on March 31, 2024. Additionally, the company is planning to set-up a biomass plant for a total cost of Rs 25 crore, to be funded by term loan of around Rs 16 crore and remaining through internal accruals.

#### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[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 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 (20,400 MTPA), dyed yarn (4,000 MTPA), knitted fabrics (6,500 MTPA), processed fabrics (7,200 MTPA) and ready-made garments (100 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, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,029.75	964.81	258.65
PBILDT	24.68	41.98	11.30
PAT	-15.93	-9.76	-6.45
Overall gearing (times)	2.67	3.64	NA

Interest coverage (times)	1.07	1.24	1.22
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A: Audited UA: Unaudited; NA: Not Available; 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-Term Loan		-	-	June 2033	198.32	CARE BBB-; Negative
Fund-based- Short Term		-	-	-	244.41	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	22.53	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	198.32	CARE BBB-; Negative	-	1)CARE BBB-; Stable (14-Nov-23) 2)CARE BBB-; Stable (14-Aug-23) 3)CARE BBB; Negative (15-May-23)	1)CARE BBB+; Negative (15-Nov-22) 2)CARE BBB+; Stable (01-Aug-22)	1)CARE BBB; Stable (27-Oct-21)
2	Fund-based-Short Term	ST	244.41	CARE A3	-	1)CARE A3 (14-Nov-23) 2)CARE A3 (14-Aug-23) 3)CARE A3 (15-May-23)	1)CARE A3+ (15-Nov-22) 2)CARE A3+ (01-Aug-22)	1)CARE A3 (27-Oct-21)
3	Non-fund-based - ST-BG/LC	ST	22.53	CARE A3	-	1)CARE A3 (14-Nov-23) 2)CARE A3 (14-Aug-23) 3)CARE A3 (15-May-23)	1)CARE A3+ (15-Nov-22) 2)CARE A3+ (01-Aug-22)	1)CARE A3 (27-Oct-21)

LT: Long term; ST: 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](mailto:care@careedge.in) for any clarifications.

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