

Mafatlal Industries Limited (Revised)

October 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	79.30 (Reduced from 114.70)	CARE BBB+; Stable	Upgraded from CARE BBB; Stable
Long-term / Short-term bank facilities	176.70 (Enhanced from 99.00)	CARE BBB+; Stable / CARE A2	Upgraded from CARE BBB; Stable / CARE A3+
Short-term bank facilities	67.00 (Enhanced from 10.00)	CARE A2	Upgraded from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings upgrade reflects the improvement in financial performance of Mafatlal Industries Limited (MIL) in FY24 and Q1 FY25 and CARE Ratings Limited's (CARE Ratings) expectation of sustained performance in the coming quarters aided by a healthy order book position and timely execution of the same. MIL's operating income grew by ~50% y-o-y to ₹2,078 crore majorly driven by rise in institutional sales of textile and textile related products by 55% y-o-y and improvement in the revenue share from digital infrastructure segment considering execution of government tenders. Revenue was also supported by orders backed by government tenders executed under the newly ventured consumer durables segment which contributed ~15% of the total revenue in FY24. MIL's inclination towards marketing and sale of products and services through government tenders, while capitalising on its long experience in tendering business, has led to change in its business model with revenue share from this segment contributing more than 80% in FY24. Further, in FY24, the company has reclassified its business in three segments: Textile and textile related products, digital infrastructure, and consumer durables and others. As institutional tender business is the primary driver of revenue, muted revenue growth considering code of conduct applied during general elections impacted the topline in Q1FY25. Its adjusted profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin continue to remain thin at 2.63% in FY24 considering its trading business. Profitability in Q1FY25 was supported by the digital infrastructure segment with PBILDT margin of 6.69% In FY24, the company's performance translated into improved adjusted overall gearing (excluding investments in NOCIL) to 0.45x and total debt to PBILDT (TD/PBILDT) to 1.50x in FY24 from 1.02x and 2.57x, respectively in FY23. CARE Ratings expects MIL to sustain its healthy performance in the coming quarters. However, regulatory risks inherent to government tenders and their impact on the company's operations remain a key monitorable.

Ratings continue to favourably factor in MIL's experienced promoters with a track record of over ten decades in the textile business. MIL's healthy scale of operations, past performance with the state government and financial strength also supports ratings. However, the ratings are tempered by moderate profitability margins given asset light outsourcing business and receivables risk considering revenue concentration (over 80%) from government tenders

Rating sensitivities: Factors likely to lead to rating actions
Positive factors

- Significantly improving scale of operations while maintaining operating margin ~3% on a sustained basis.

Negative factors

- Deteriorating operating margin below 1.8% on a sustained basis.
- Deteriorating overall gearing above 1.5x and stretch in the company's liquidity profile.
- Significantly declining value of MIL's investment in NOCIL Limited.

Analytical approach: Standalone
Outlook: Stable

The stable outlook reflects CARE Ratings expectations that the company will continue to benefit from experience of promoters and experience in executing government tenders translating into healthy performance in the near-to-medium term.

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

Detailed description of key rating drivers:

Key strengths

Substantial improvement in scale of operations; likely to sustain

MIL recorded its highest ever revenue with over ~50% y-o-y growth in its total income from operations at ₹2078 crore in FY24 against at ₹1372.48 crore in FY23 driven by increase in institutional sale of textile and textile related products by 55% y-o-y and increase in revenue share from digital infrastructure segment with execution of government tenders. Revenue was also supported by orders under the newly ventured consumer durables segment, which contributed ~15% to the total revenue in FY24. Apart from traditional textile business through government tenders textile and textile related products segment also comprises healthcare and hygiene products where the revenue has improved by ~40% in FY24 as compared to FY22. MIL's revenue growth remained mute in Q1 FY25 with total income of ₹457.73 crore (Q1FY24: ₹608 crore) considering code of conduct during general elections held in the quarter, as institutional tender business remains the primary driver of revenue. Going forward, CARE Ratings expects MIL to sustain its scale of operations supported by healthy order book position and active participation in upcoming tenders.

Improvement in credit metrics in FY24; likely to sustain

MIL continues to follow an asset-light approach which minimises incremental capex and borrowing in medium term. In addition to this, the company enjoys longer credit period from its suppliers, reducing the company's reliance on working capital borrowings. The company's overall gearing continues to remain below unity at 0.1x for FY24 (PY: 0.15x). Comfortable gearing continues to derive major support from MIL's investment in NOCIL Limited which supports MIL's net worth. Adjusted overall gearing (excluding investments in NOCIL) also stood comfortable at 0.45x as on March 31, 2024 (1.02x as on March 31, 2023). The company's interest coverage improved to 3.57x in FY24 (2.08x in FY23) considering improved absolute PBILDT at ₹54.74 crore (PY:36.78 crore). CARE Ratings expects credit metrics to remain comfortable in the near-to-medium term.

Experienced promoters and management and long track record of the company

MIL's promoters, Mafatlal family, have over ten decades of experience in the textile industry and have been closely involved in management of business and defining and monitoring business strategy for the company. H A Mafatlal, MIL's chairman, has over 46 years of experience in areas like textile, petrochemicals, and chemicals. MIL is professionally managed with members of the board comprising of eminent professionals having wide experience and business acumen and well supported by the key management personnel having good experience in the industry. Moreover, the company's experience in winning and executing government tenders is expected to aid its business over the coming years.

Established brand image and wide geographical coverage

MIL has built a brand image for itself being in the market for over ten decades. The company's products are principally marketed under the "Mafatlal" brand. For its new business vertical, which the company entered in FY19 under 'Mafatlal Healthcare', brands like "Coocoo", "UNICHOICE", "MEDIMEF" and "Frolica" has been created. MIL has a wide distribution network with 1000 dealers and 35,000 retailers making the company's brands available across India.

Key weaknesses

Modest profitability constrained by trading business

CARE Ratings expects the company's operating profitability to continue to remain modest given that over 80% revenue is derived from trading and outsourcing segment. Owing to MIL's outsourcing led asset light business model approach, the company is focused on high volume and low margin business model. Profitability continued to remain modest at 2.63% in FY24 (FY23: 2.68%). However, in Q1FY25, profitability margins stood at 6.69%, which was supported by increase in revenue share from digital infrastructure segment owing to comparatively better margins.

Regulatory risks inherent to government tenders and dependence on creditors to meet working capital requirements

As majority revenue depends on government tenders, the company is susceptible to risks related to decline in government spending, change in government priorities or government instability. MIL's diversification across states and participation in tenders which are backed by budgetary allocations mitigate the risk to an extent. CARE Ratings also notes MIL's entry in digital infrastructure which encompasses supply, implementation and maintenance of technology products, where the company has limited experience, exposing it to risks including that of legal liabilities for non-performance.

Government tenders carry the risk of sizeable receivables which elongates the working capital cycle as reflected in MIL's collection period of ~80 days. However, this working capital cycle is taken care due to longer credit period offered by the suppliers. This is reflected in stretched creditors of over 95 days in the last two years. Significant change in arrangement with creditors or substantial delay in receipt of funds from authorities could materially impact MIL's liquidity. However, comfort is drawn from MIL's experience in dealing with governments and the supply chain ecosystem which MIL has developed over the decades.

Liquidity: Adequate

The company's liquidity is adequate with expected gross cash accrual (GCA) of over ₹75.00 crore in FY25 against debt repayment obligation of ₹17.28 crore. MIL's free cash and bank position stood at ₹189 crore as on March 31, 2024, (As on March 31, 2022: ₹53.44 crore) partly bolstered by realisation of a large receivable at the year end. Furthermore, MIL holds 2.04 crore of unencumbered shares in NOCIL Limited having the market value of ₹563.55 crore as on June 30, 2024. While these shares are part of promoters holding in NOCIL, it enhances MIL's financial flexibility. The company's liquidity is majorly supported by high credit period extended by suppliers and the unutilised limits available. The average fund-based limits utilisation remains comfortable below 50% for last ten months ended June 30, 2024.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Textiles	Textiles and apparels	Other textile products

Incorporated in 1913, MIL is among India's oldest textile companies with its brand, Mafatlal, being one of the country's widely recalled textile brands. MIL was initially an integrated textile player with spinning, weaving and processing facilities at Nadiad. Later, it ventured in trading school and corporate uniforms, healthcare and hygiene products, majorly through government tenders. This segment was known as Marketing and Sales Division (MSD). Recently, the company participated in the government tenders for supply of digital infrastructure and consumer durable. The company has reclassified its business into three major segments namely textile and textile related products, digital infrastructure, and consumer durables and others. Textile and textile related products are likely to be the mainstay for MIL going forward.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,372.48	2,078.41	457.73^
PBILDT	36.79	54.74	30.63
PAT	37.48	98.75	30.38
Overall gearing (times)	0.15	0.10	NA
Interest coverage (times)	2.08	3.57	8.73

A: Audited UA: Unaudited; UA: Unaudited; NA: Not available; Note: these are latest available financial results; numbers as per CARE Ratings' calculations; ^inclusive of other income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	33.00	CARE BBB+; Stable
Fund-based - ST-Term loan		-	-	-	67.00	CARE A2
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.70	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	151.00	CARE BBB+; Stable / CARE A2
Term Loan-Long Term		-	-	March 2031	46.30	CARE BBB+; Stable

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 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-Cash Credit	LT	33.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (03-Aug-23)	1)CARE BBB-; Stable (30-Aug-22) 2)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	151.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (03-Aug-23)	1)CARE BBB-; Stable / CARE A3 (30-Aug-22)	1)CARE BB+; Positive / CARE A4+ (30-Nov-21)

							2)CARE BBB-; Stable / CARE A3 (10-Aug-22)	
3	Term Loan-Long Term	LT	46.30	CARE BBB+; Stable	-	1)CARE BBB; Stable (03-Aug-23)	1)CARE BBB-; Stable (30-Aug-22) 2)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)
4	Fund-based - ST-Term loan	ST	67.00	CARE A2	-	1)CARE A3+ (03-Aug-23)	1)CARE A3 (30-Aug-22) 2)CARE A3 (10-Aug-22)	1)CARE A4+ (30-Nov-21)
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	25.70	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (03-Aug-23)	-	-

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 - ST-Term loan	Simple
3	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view 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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