Maral Overseas Limited

October 27, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	141.46 (Enhanced from Rs.85.89 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**
Short term Bank Facilities	203.00 (Enhanced from 184.78 crore)	**CARE A3 (A Three)**	**Reaffirmed**
Total	**344.46 (Rs. Three hundred forty-four crore and forty-six lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Maral Overseas Limited (MOL) factors in improvement in operational performance of company marked by better profitability margins supported by demand-supply gap in the textile industry leading to healthy realizations and improved financial risk profile characterized by improvement in overall gearing and other debt coverage metrics. Further, the ratings continue to derive *strength from its strong parentage, experienced promoters and management team, its diversified product profile and established marketing tie-ups with leading apparel brands. The ratings are, further strengthened by the geographically distributed operations of the company with low customer concentration risk. The ratings are constrained by continuation of MOL under the ambit of Corporate Debt Restructuring (CDR) forum and susceptibility of its profitability margins to volatility in raw material prices, high working capital utilization and towards foreign exchange fluctuations risk and its presence in highly competitive market.*

Rating Sensitivities

Positive factors:

- Increase in total operating income of company to Rs. 800 crores with sustainable profitability margins.
- Overall gearing of less than 1.5x

Negative factors

- Deterioration in capital structure with overall gearing of more than 2.5x
- Lower than envisaged cash accruals adversely impacting the liquidity of the company

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in operational performance: During FY21 (refers to the period from April 1, 2020 to March 31, 2021), MOL reported moderation by around 7% in its total operating income on account of major decrease in export sales which was primarily due to outbreak of COVID-19 pandemic across world. However, PBILDT margin of company have improved significantly to 9.27% in FY21 as compared to 2.78% in FY20 owing to decrease in cost of raw materials and improved sales realisations in Yarn segment. The decision of the US to impose sanctions on Xinjiang- derived cotton exports from China resulted in demand supply gap and export opportunity for India owing to which sales realizations of Indian textile industry improved. Further, company reported a PAT of Rs. 12.53 crore during FY21 against losses during FY20. During Q1FY22, operational performance of company has improved further, and company reported a total operating income of Rs. 227.87 Cr. with healthy PBILDT margin of 14.10% and PAT margin of 8.96%. During FY20, the losses were primarily in garment segment due to its low productivity and lower efficiency. However, during FY21, management of company took various measures to increase its productivity along with increase in customer base which resulted in improved profitability.

Improving financial risk profile: The capital structure of the company has improved with overall gearing of 2.43x as on March 31, 2021, from 3.20x as on March 31, 2020, on account lower working capital utilization as on March 31, 2021, coupled with improvement in net worth with accretion of profits. During FY21, debt coverage indicators like PBILDT Interest coverage and Total debt/GCA improved to 3.57x and 5.79x respectively (PY: 1.22x and 28.21x respectively). Further, interest coverage during Q1FY22 was 5.42x during Q1FY22. (PY: -1.21X)

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 Pvt. Ltd. (rated CARE A; Negative/CARE A2+), Maral Overseas Limited, RSWM Limited and BSL Limited. The production units and corporate offices of the Group are spread over 38 locations in India, and the Group employs more than 26,000 people.

Experienced promoters and management team: 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 from Illinois Institute of Technology, Chicago, USA. He has an experience of more than three decades in this line of business. He is well assisted by a management team having functional experience in related areas.

Diversified product profile and established marketing tie-ups with leading apparel brands: MOL is engaged in manufacturing of cotton yarn, knitted fabrics, processed fabrics and ready-made garments and has presence throughout the textile value chain. The company also owns a fully- integrated dye house plant with latest technology having facility for dying of yarn. The company sells its products in both domestic as well as export market and apart from this a significant portion of the cotton yarn and fabrics manufactured by the company are also used in-house to manufacture fabric and garments which provides better control on the quality of the finished garment. Further, the customer base of MOL is diversified, primarily due to its varied product profile. Being in operations since the last two decades, MOL has established tie-ups with various agents and strong apparel brands like M/s Cecil (Germany), M/s Schiesser (Germany), M/s Joy Sportwear (Germany), M/s Blair (USA), M/s. RNA Resources (Dubai), M/s Reitman (Canada), M/s Marubeni (Japan) etc.

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.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in the raw material prices: The basic raw material consumed by MOL to produce yarn is cotton. Cotton prices, which are dependent on the government policies, effect of monsoon, etc. have been highly volatile in the past few years. Furthermore, yarn being a commodity, its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of MOL's fabric and garment verticals.

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 the natural hedge to company to some extent. Further, the company hedges the balance forex risk through forward contracts (generally almost 100% of foreign currency exposure is hedged by the company), 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 major competition from China, Bangladesh and other cheap export-based countries which sell garments at lower rates compared to India. Domestic competition has been growing in the garment segment with the international brands entering India. Moreover, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition, and affecting margins.

Industry Prospects: With structural shift in the international markets for specialty cotton-based yarns following the decision of the US to impose sanctions on Xinjiang- derived cotton exports from China, its likely to widen the export opportunity from India. China's specialty yarn exports are estimated to be ~200 billion dollars, the corresponding figure from India is a tenth of this figure. Even a 10 percent shift in exports from China to India could virtually double India's export of Specialty yarns.

Liquidity: Adequate

The company reported positive cash flow from operations during FY21 of Rs. 34.35 crore as against Rs. 37.04 crore during FY20. The current portion of long-term debt for FY22 is around Rs. 36.00 crores (scheduled repayment of term loans from banks) against projected gross cash accrual of around Rs.80 crore. Average maximum utilization of working capital utilization of MOL for trailing 12 months ending August 2021 stod at around ~82%, owing to working capital intensive nature of operations of company. During FY21, average working capital cycle of company stood at 70 days (PY: 71 days). The working capital cycle of the company remains modest on account of slightly high inventory days as company's major raw material cotton is cyclic in nature and company has to maintain sufficient level of inventory for the entire period. Further, company plans to modernize/ upgrade its existing infrastructure at Sarovar unit with setting up of new garment manufacturing units during FY22 and FY23 with total estimated cost of around Rs.73 crore which will be funded by term loans and internal accruals.

Analytical approach: Standalone

Applicable Criteria
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's methodology for Cotton Yarn
CARE's Policy for Factoring Linkages Parent Sub JV Group
CARE's methodology for Liquidity analysis (Non-Financial Sector)

About the Company
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 (19,100 MTPA), dyed yarn (4,000 MTPA), knitted fabrics (6,500 MTPA), processed fabrics (7,200 MTPA) and ready-made garments (72 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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	687.38	637.37
PBILDT	19.08	59.09
PAT	-15.28	12.53
Overall gearing (times)	3.20	2.43
Interest coverage (times)	1.22	3.57

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	141.46	CARE BBB; Stable
Fund-based-Short Term		-	-	-	175.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	28.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	141.46	CARE BBB; Stable	-	1)CARE BBB-; Negative (06-Oct-20)2)CARE BBB-; Stable (30-Jun-20)	1)CARE BBB; Stable (09-Sep-19)	1)CARE BBB; Stable (13-Mar-19)
2	Fund-based-Short Term	ST	175.00	CARE A3	-	1)CARE A3 (06-Oct-20)2)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)	1)CARE A3+ (13-Mar-19)
3	Non-fund-based - ST-BG/LC	ST	28.00	CARE A3	-	1)CARE A3 (06-Oct-20)2)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)	1)CARE A3+ (13-Mar-19)

** Long Term / Short Term*

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

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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