

Mafatlal Industries Limited

November 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	161.80 (Reduced from 175.84)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	22.00 (Enhanced from 20.00)	CARE BB+; Positive / CARE A4+ (Double B Plus ; Outlook: Positive/ A Four Plus)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	10.00	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	193.80 (Rs. One Hundred Ninety-Three Core and Eighty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mafatlal Industries Limited (MIL) continue to derive strength from the extensive experience of the promoters and the management in the textile business, wide product portfolio & geographical coverage and liquidity available through holding in shares of NOCIL Limited. The above strengths are constrained by weak operating performance of the company during FY21 due to Covid outbreak whereby the company continued to post losses, however the improvement has been seen in H1FY22. The rating strengths are further offset by the susceptibility to inherent cyclicality in the industry, exposed to volatility in the cotton price which is the main raw material and intense competition in the textile industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of business to Rs. 1,000 crore on a sustained basis
- The ability of the company to report PBILDT margins above 6% on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration of margins leading to losses at operating levels
- Delays in sale of non-core assets resulting in higher interest outflow/impacting liquidity

Outlook: Positive

The positive outlook reflects the company's recovery in the operating performance in H1FY22, liquidity available from sale of non core assets will help company to manage its working capital, which in turn will help the company to achieve better margins in the coming quarters. Positive outlook also factors in Expected recovery in the sale of school uniform (through dealer distributor network as well as direct sale to schools) and improved orders from tender business.

Detailed description of the key rating drivers

Key Rating Weaknesses

Deterioration of operational performance in FY21; Recovery seen in H1FY22:

For FY21, MIL's revenues declined by 40.67% on account of COVID 19 impact in Q1FY21 and Q2FY21, however there was recovery in second half of FY21. The company closed its operations of loss-making denim division at Navsari plant. The company has liquidated the stocks of finished goods, raw material and spares and other non-core assets at Navsari plant and has shifted the plant and machinery to Nadiad plant.

The textile division reported decline in volumes by 54.7% and realisation remained at the same in FY21 at compared to FY20, this resulted into overall decline in turnover by 54.5% in FY21 for textile division. The capacity utilisation of MIL's textile division in FY21 was 40.28%. One of the major streams of revenue is trading of school uniforms which contributed (~10% to total revenues in FY21, 20-21% for FY20) has been significantly impacted. However, reopening of schools in phased manner in second half of FY22, will add higher revenue to the books of company in FY22.

MIL achieved Total revenue of Rs. 454.52 crores in H1FY22 due to higher demand from government tendering segment. The company reported operating PBILDT (excluding revenue from sale of non core assets) of Rs. 5.44 crores in H1FY22. The company has reported profit on sale of asset of Rs. 36.29 crores in H1FY22, which have resulted into improved liquidity for

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

the company. The company is expecting better margins in the coming quarters on account of complete shutdown of loss-making denim division, reducing permanent workforce at Nadiad plant which will help company reduce employee cost, higher revenue visibility in form of government tendering business and expected recovery in the sales of school uniform business.

Debt service coverage indicators continue to remain weak; albeit improvement in Overall gearing

During FY21, debt coverage ratios such as interest coverage and total debt to GCA deteriorated to -1.95x and -1.97x as on March 31, 2021 as against 0.54x and 43.35x as on March 31, 2020 respectively on account of company reporting loss at operating level in FY21. The PBILDT interest coverage indicators improved to 0.50x in H1FY22 on account of profit reported at operating level, however it still remains weak. The overall gearing of the company improved from 0.54x as on March 31, 2020 to 0.32x as on March 31, 2021 on account of reduced overall debt and improvement in the company networth due to increment in the value of investments (NOCIL) by Rs. 275.4 crores in FY21.

Susceptible to volatility in prices of key raw material:

Cotton and cotton yarn are the key raw materials for MIL. Cotton prices have exhibited considerable volatility in the recent past due to various reasons, such as government policies, effects of monsoon, demand-supply scenario, etc. Profitability margins of textile manufacturers are exposed to adverse movement in cotton prices thus any unprecedented increase in the raw material going forward, may impact the profitability margins of MIL.

Key Rating Strengths

Experienced promoters and management along with long track record of the company:

The promoters of Mafatlal Industries Limited (MIL) i.e. the Mafatlal family have over ten decades of experience in the textile industry and has been closely involved in the management of business and in defining & monitoring the business strategy for the company. Mr. H. A. Mafatlal the chairman of MIL, a graduate from Harvard Business School of U.S.A. has more than 40 years of experience in areas like textile, petrochemicals and chemicals. MIL is professionally managed with the 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.

Integrated presence across the textile value chain:

MIL has presence across the entire textile value chain. The company has integrated nature of operations comprising of manufacture of yarn, dyeing, processing and finishing for shirting/bottom ware fabric. Apart from the diversified product range the company also has well diversified customers and markets.

Established brand image and wide geographical coverage:

MIL's more than 100 years of presence in the textile industry has helped the company to build a brand image for itself. The products of the company are principally marketed under the "Mafatlal" brand. MIL has a wide distribution network with 400 dealers and 35,000 retailers making the company's brands available across India. The company exports to 18 countries and exports contributed to ~7% of gross sales in FY21 (~7% in FY20). Further, the company's customers are well spread across India with top 5 customers accounting for 33% of total gross sales.

Liquidity: Adequate

For FY22, MIL is looking to repay debt of ~Rs.26 crores against expected GCA of Rs.45-50 crores in FY22. As on November 18, 2021, Company has unencumbered bank balances of Rs. 17.00 crores. The company has average Utilized fund based limits of Rs. 21.37 crores for past 12 months ending September 2021.

The company has entered into MoUs to sell non-core assets amounting to Rs. 85.00 crore (as on November 2021) and has received Rs. 36.00 crore through sale/advances. MIL expects another 14-15 crores to be received in H2FY22 from sale of assets. Proceeds from the sale of non-core assets will be used for scheduled repayments of debt and to support business growth

MIL also holds 2.53 crore shares of NOCIL Ltd., of which 0.57 crore shares have been pledged. As on November 22, 2021, the market value of 1.96 crore unencumbered shares is over Rs. 470 crores. While these shares are part of promoters holding in NOCIL, the said shareholding is available to MIL for monetisation.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Cotton Textile](#)
[Manufacturing Companies](#)
[Wholesale Trading](#)

About the Company

Incorporated in the year 1913, Mafatlal Industries Limited (MIL) is among India's oldest textile companies. Its brand, Mafatlal is one of the country's widely recalled textile brands. MIL is an integrated textile player with spinning, weaving and processing facility at Nadiad. It produces a range of products, which includes 100% cotton and polyester/ cotton blends, consisting of yarn dyed and piece dyed shirtings, poplins, bottom wear fabrics, cambric's, fine lawns and voiles. The company also supplies school and office uniform materials. MIL has an extensive distribution network catering to global brands like Jack & Jones, Wrangler, Lee and C&A as well as domestic brands like Killer, Mufti, Spykar and Allen Solly. The company primarily has two major divisions i.e Textiles (manufacturing of fabric) contributing around 27% (37% in FY20) and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 66% (51% in FY20) to total sales in FY21. The company has a cogeneration plant that meets around 30% of the total power requirements.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	1,034.94	613.99	454.52
PBILDT	16.83	-43.13	5.44
PAT	-13.71	-93.75	10.33
Overall gearing (times)	0.54	0.32	NA
Interest coverage (times)	0.54	-1.95	0.50

A: Audited; UA: Unaudited; NA: Not 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 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-Cash Credit		-	-	-	75.00	CARE BB+; Positive
Non-fund-based - LT/ ST-BG/LC		-	-	-	22.00	CARE BB+; Positive / CARE A4+
Term Loan-Long Term*		-	-	-	86.80	CARE BB+; Positive
Fund-based - ST-Term loan		-	-	-	10.00	CARE A4+

* outstanding as on August 30, 2021

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-Cash Credit	LT	75.00	CARE BB+; Positive	-	1)CARE BB+; Stable (06-Oct-20)	1)CARE BBB-; Negative (04-Oct-19)	1)CARE BBB-; Negative (22-Jan-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	22.00	CARE BB+; Positive / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (06-Oct-20)	1)CARE BBB-; Negative / CARE A3 (04-Oct-19)	1)CARE BBB-; Negative / CARE A3 (22-Jan-19)
3	Term Loan-Long Term	LT	86.80	CARE BB+; Positive	-	1)CARE BB+; Stable (06-Oct-20)	1)CARE BBB-; Negative (04-Oct-19)	1)CARE BBB-; Negative (22-Jan-19)
4	Fund-based - ST-Term loan	ST	10.00	CARE A4+				

* 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-Cash Credit	Simple
2	Fund-based - ST-Term loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	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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