

Mafatlal Industries Limited
January 22 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities-Term Loan	57.50	CARE BBB-; Negative (Triple B Minus; Outlook:Negative)	Reaffirmed
Long term Bank Facilities – Fund Based Facilities	105.00	CARE BBB-; Negative (Triple B Minus; Outlook:Negative)	Reaffirmed
Long /Short term Bank Facilities – Fund/Non Fund Based	37.50	CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook:Negative/A Three)	Reaffirmed
Total Facilities to be Rated	200.00 (Rupees Two Hundred Crore 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 adequate liquidity cushion available.

The above strengths are constrained by weak operating performance of the company during FY18 (refers to the period April 2017- March 2018) and H1FY19 (refers to the period April 01 2018 – September 30 2018) whereby the company continues to post losses. The rating strengths are further offset by the susceptibility to inherent cyclical in the denim industry, exposed to volatility in the cotton price which is the main raw material and intense competition in the textile industry.

Improvement in profitability margins and stability in the overall business remains the key rating sensitivities.

Outlook: Negative

The negative outlook reflects likelihood of revenue and operating profit further being impacted by muted demand given the glut in supply with significant capacity addition in the textile sector and subdued performance of its denim division in the backdrop of the company's efforts to streamline its overall business operations amidst intense competition. The outlook may be revised to 'Stable' if company is able to improve its cash flow from operations whilst bringing overall stability in its business operations.

Detailed description of the key rating drivers**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.

Integrated presence across the textile value chain

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

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 both denims and shirting/bottom ware fabric.

Wide geographical coverage and well-diversified product portfolio

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 also has a retail chain under the brand name 'Mafatlal Family Shop'.

MIL's product portfolio comprises of yarn dyed shirting, suiting, voiles, prints, linens, bleached white fabrics, rubia, value added denims, school uniforms, corporate/institutional uniforms, bed and bath linen and ready-made garments.

Comfortable capital structure with adequate liquidity cushion

MIL has a comfortable capital structure marked by an overall gearing of 0.29x as on March 31, 2018 as against 0.43x as on March 31, 2017.

The company has adequate liquidity in terms of its investments in NOCIL Ltd. MIL holds 2.60 crore shares of NOCIL, the present market value of which is around Rs. 450 crore. While this is a part of promoters holding in NOCIL, the said shareholding is available to MIL for monetization. During H1FY19, the company has taken board approval to sell some of its shares in NOCIL limited through open market. The Company till January 1, 2019 has sold NOCIL shares amounting to Rs.12.76 crore to ensure liquidity. In addition to that MIL has several non-core assets in terms of lands and properties which the company proposes to sell in near term. Some of deals are at very advanced stage and the company expected to garner around Rs. 60 crore by the end of FY19 from these assets.

Key Rating Weaknesses

Deterioration in operational and financial performance in FY18 and H1FY19

MIL posted a 5.60% de-growth in total operating income in FY18 as against de-growth of 5.52% in FY17 on account of introduction of GST in the textile industry which was earlier outside the ambit of excise duty and sales tax. As domestic market adjusted itself to GST compliance, this led to substantial inventory build-up with the mills which created distress selling scenario putting huge pressure on selling prices. The growth was further affected in H1FY19 primarily due to the subdued demand market in the textile sector given the glut in supply characterized by significant capacity addition coupled with muted performance of company's denim division.

Profitability margins exposed 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.

Fragmented & Competitive Nature of Industry

The yarn & fabric manufacturing industry in India is highly fragmented and dominated by a large number of small scale units leading to high competition in the industry. Smaller standalone units are more vulnerable to intense competition and have limited pricing flexibility, which constrains their profitability as compared with larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations. larger integrated textile companies who have better efficiencies and pricing power considering their scale of operations.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology-Wholesale Trading](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financials Ratio-Non Financial Sector](#)

[Criteria on Assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

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 and Navasari. 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 international and domestic market 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 has three divisions Denim contributing around 34% to the total sales, Textiles (manufacturing of fabric) contributing around 28% and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 38% to total sales in FY18 (refers to the period April 2017- March 2018). In addition to that the company has a cogeneration plant that meets around 30% of the total power requirements.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1266.09	1195.23
PBILD	42.10	18.13
PAT	4.12	-41.78
Overall gearing (times)	0.43	0.29
Interest coverage (times)	1.44	0.59

Status of non-cooperation with previous CRA: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	105.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	37.50	CARE BBB-; Negative / CARE A3
Term Loan-Long Term	-	-	July 17 2025	57.50	CARE BBB-; Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	105.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (05-Mar-18) 2)CARE BBB; Negative (11-Sep-17)	1)CARE BBB (23-Aug-16)	1)CARE BBB- (05-Oct-15) 2)CARE BBB- (14-Apr-15)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	37.50	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (05-Mar-18) 2)CARE BBB; Negative / CARE A3+ (11-Sep-17)	1)CARE BBB / CARE A3+ (23-Aug-16)	1)CARE BBB- / CARE A3 (05-Oct-15) 2)CARE BBB- / CARE A3 (14-Apr-15)
3.	Term Loan-Long Term	LT	57.50	CARE BBB-; Negative	-	1)CARE BBB-; Negative (05-Mar-18) 2)CARE BBB; Negative (11-Sep-17)	1)CARE BBB (23-Aug-16)	-

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