Mafatlal Industries Limited

March 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities- Term Loan	67.50	**CARE BBB-; Negative (Triple B Minus; Outlook:Negative)**	Revised from CARE BBB; Negative (Triple B; Outlook:Negative)
Long term Bank Facilities – Fund Based Facilities	95.00	**CARE BBB-; Negative (Triple B Minus; Outlook:Negative)**	Revised from CARE BBB; Negative (Triple B; Outlook:Negative)
Long /Short term Bank Facilities – Fund/Non Fund Based	37.50	**CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook:Negative/A Three)**	CARE BBB; Negative/CARE A3+ (Triple B; Outlook:Negative/A Three Plus)
Total Facilities Rated	200.00 (Rupees Two Hundred Crore Only)		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Mafatlal Industries Limited (MIL) takes into account the deterioration in revenue and profitability of the company during 9MFY18 (refers to the period April 2017-December 2017) mainly on account of sub-optimal performance of its denim division and concomitant stress on the cash flow position and debt coverage indicators.

The ratings continue to derive strength from the extensive experience of the promoters and the management in the textile business, integrated presence across textile value chain with established brand image, wide product portfolio & geographical coverage along with comfortable capital structure. CARE also notes that the company has some liquidity cushion available primarily from monetization of its non-core assets and liquid investments in NOCIL Limited wherein MIL holds 15.90% of the shares.

However, the above strengths are tempered owning to moderation in operating performance of the company during FY17 (refers to the period April 01 to March 31) & 9MFY18 characterized by dip in operating margin and moderate debt protection metrics. The rating strengths are further offset by susceptibility of profitability to inherent cyclicality in the denim industry, intense competition in the textile industry and volatility in the prices of cotton which is the main raw material for the company.

Growth in overall operations, improvement in profitability margins and stability in the overall business whilst prudent management of working capital utilization remains the key rating sensitivity.

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

Outlook: Negative

The negative outlook reflects likelihood of revenue and operating profit further being impacted by subdued demand given the glut in supply with significant capacity addition in the textile sector in the backdrop of the company's efforts to streamline its overall business operations amidst intense competition and volatile raw material prices. 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

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.

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

Well-diversified product portfolio

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. Post amalgamation, MIL is one of the few Indian players to manufacture denim and non-denim products, enabling the company to build a wide customer reach and base.

Comfortable capital structure & moderate debt protection metrics with some liquidity cushion and investments

MIL has a comfortable capital structure marked by an overall gearing of 0.67x as on March 31, 2017 as against 0.62x as on March 31, 2016. The slight deterioration was on account of drawdown of term loans of Rs.69.76 crore for capital expenditure purposes, which was offset by lower working capital utilizations as on March 31, 2017. MIL's total debt to cash accruals ratio deteriorated to 12.50x as on March 31, 2017 from 5.79x as on March 31, 2016, whilst its interest coverage ratio stood at 1.27x as on March 31, 2017 as against 2.46x as on March 31, 2016.

During Q1FY18, the company sold 1,18,389 shares of its group entity Navin Fluorine International Ltd for Rs.33.70 crore, out of which Rs.15.35 crore is available with the company in fixed deposits which imparts adequate liquidity to meet scheduled debt repayments. The company has also has indicated the monetizing of its shareholding in NOCIL limited, if need be, to provide for additional liquidity back-up during contingency. Mafatlal Industries Limited holds 15.90% of shares in NOCIL limited

Capex plan for backward integration in order to improve the profitability margins

MIL has completed the capex of around Rs.99 crore in FY17. The same was funded by term loan of Rs.70 crore and balance from its internal accruals. The capex is mainly towards increasing its yarn capacity and processing capacity along with modernization of existing facility. Thus the capex is mainly towards backward integration. Currently around 31% of the yarn and 25% of the grey fabric is procured from outside which is leading to increase in raw material cost. Thus the capex is expected to improve the profitability margins in the medium term.

Key Rating Weaknesses

Deterioration in operational and financial performance in FY17 and 9MFY18

MIL posted a 4.52% de-growth in its top line in FY17 as against growth of 30.27% in FY16, primarily due to the highly challenging environment in the trading segment which was severely impacted during the second half of the year post demonetization coupled with the ongoing elections in various states, which led to a dip in the number of tenders floated for uniforms from various bodies. The growth was further affected in 9MFY18 with 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.

Furthermore, on account of a rise in average cotton prices from Rs.16,198/bale in FY16 to Rs.19,850/bale in FY17, MIL's overall operating profit margin also declined from 2.84% in FY17 to 1.92% in 9MFY18. With a rise in finance cost as well as depreciation expense in the backdrop of ongoing CAPEX, the company reported a loss of Rs.2.14 crore in FY17 as against profit of Rs.17.12 crore in FY16. In 9MFY18, company earned total income of Rs.906.27 crore with a net loss of Rs.32.25 crore.

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.

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
Rating Methodology: Factoring Linkages in Ratings

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 32% and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 34% to total sales in FY17. In addition to that the company has a cogeneration plant that meets around 30% of the total power requirements.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1340.41	1279.72
PBILDT	56.79	36.39
PAT	17.12	-2.15
Overall gearing (times)	0.62	0.67
Interest coverage (times)	2.46	1.27

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.*

Analyst Contact:
Name: Arunava Paul
Tel: +91 22 6754 3667
Email: Arunava.Paul@careratings.com

**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	-	95.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	37.50	CARE BBB-; Negative / CARE A3
Term Loan-Long Term	-	-	July 17, 2025	67.50	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	95.00	CARE BBB-; Negative	1)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+ (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	67.50	CARE BBB-; Negative	1)CARE BBB; Negative (11-Sep-17)	1)CARE BBB (23-Aug-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691