

**Mafatlal Industries Limited**  
**September 11, 2017**

**Ratings**

| Facilities   | Amount<br>(Rs. crore)                                 | Rating1   | Rating Action     |
|--|---|---|-------------------|
| Long term Bank Facilities-<br>Term Loan                      | 67.50   | <b>CARE BBB; Negative<br/>(Triple B;<br/>Outlook:Negative)</b>                  | <b>Reaffirmed</b> |
| Long term Bank Facilities<br>– Fund Based Facilities         | 95.00   | <b>CARE BBB; Negative<br/>(Triple B;<br/>Outlook:Negative)</b>                  | <b>Reaffirmed</b> |
| Long /Short term Bank<br>Facilities – Fund/Non<br>Fund Based | 37.50   | <b>CARE BBB; Negative/CARE A3+<br/>(Triple B;<br/>Outlook:Negative/A3 Plus)</b> | <b>Reaffirmed</b> |
| <b>Total Facilities to be<br/>Rated</b>                      | <b>200.00<br/>(Rupees Two Hundred<br/>Crore Only)</b> |   |                   |

**Detailed Rationale & Key Rating Drivers**

The reaffirmation in the ratings assigned to the bank facilities of Mafatlal Industries Limited (MIL) continues 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.

The ratings are however constrained owing to moderation in operating performance of the company during FY17 (refers to the period April 01 to March 31) & Q1FY18 (April 01 to June 30) characterized by dip in operating margin, culminating into moderate debt protection metrics, in the backdrop of significant repayments due in the short term. The rating further remains constrained by susceptibility of profitability to volatility in cotton prices, inherent cyclicality in the denim industry and intense competition in the textile industry. CARE also notes that the company has adequate liquidity primarily available from monetization of non-core investments.

Growth in operations, improvement in profitability margins given volatility in prices of cotton which is MIL's major raw material and high repayment of term loan majorly taken for backward integration, whilst prudent management of working capital utilization remain the key rating sensitivities.

**Outlook: Negative**

The negative outlook reflects likelihood of revenue and operating profit being impacted by continuation of lower demand post GST implementation, volatile raw material prices and , high debt obligations given debt funded capex done by the company. The outlook may be revised to 'Stable' if company is able to improve its cash flow from operations and debt coverage indicators.

**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**

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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 adequate liquidity position**

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 CAPEX purposes, which was offset by lower working capital utilizations as on last day of the year ended March 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, out of which Rs.27.32 crore is available with the company in fixed deposits, which imparts adequate liquidity.

#### **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 Q1FY18**

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.

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 4.24% in FY16 to 2.84% in FY17. 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 Q1FY18, company earned total income of Rs.356.90 crore with a net loss of Rs.9.10 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.

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**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 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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of

capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

### 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           | -                | -           | June 17, 2025 | 67.50                         | CARE BBB; Negative                        |

### Rating History of Past 3 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 (23-Aug-16)                    | 1)CARE BBB- (05-Oct-15)<br>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 / CARE A3+ (23-Aug-16)         | 1)CARE BBB- / CARE A3 (05-Oct-15)<br>2)CARE BBB- / CARE A3 (14-Apr-15) | -   |
| 3.      | Term Loan-Long Term                    | LT              | 67.50                          | CARE BBB; Negative            | -   | 1)CARE BBB (23-Aug-16)                    | -  | -   |

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