Mafatlal Industries Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Term Loan	49.27 (57.50)	**CARE BBB-; Negative (Triple B Minus; Outlook:Negative)**	**Reaffirmed**
Long term fund based – Cash Credit	115.00 (105.00)	**CARE BBB-; Negative (Triple B Minus; Outlook:Negative)**	**Reaffirmed**
Short term non-fund based – LC/BG	32.50 (37.50)	**CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook:Negative /A Three)**	**Reaffirmed**
Total Facilities	**196.77 (Rs. One hundred ninety six crore and seventy seven lakh 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 FY19 and Q1FY20 whereby the company continued to post losses. The rating strengths are further offset by the susceptibility to inherent cyclicality in the denim industry, exposed to volatility in the cotton price which is the main raw material and intense competition in the textile industry.

The company has decided to substantially scale down denim operations and looking to dispose surplus assets to retire debt pertaining to the same. The ability of the company to execute the sale of assets and retire the debt as envisaged is critical from credit perspective. Improvement in profitability margins and stability in the overall business remains the key rating sensitivities.

Outlook: Negative

The negative outlook reflects the company's continued subdued performance on the back of significant losses in denim operation. The company has decided to substantially scale down denim operations and sell off its surplus assets to settle liabilities pertaining to the same. The outlook may be revised to 'Stable' if company is able to show sustained improvement in profitability of textile division.

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. Mr. H. A. Mafatlal the chairman of MIL, a graduate from Harvard Business School of U.S.A. has more than 35 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 both denims and 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.

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

Key Rating Weaknesses

Deterioration of operational performance in FY19

MIL posted 11.97% fall in its revenues in FY19 as against FY18 primarily on account of the subdued domestic demand market scenario coupled with poor performance of the company's denim operation (contributed 26% to the total sales in FY19; down from 34% in FY18). During Q4FY19, the company has been able to turnaround its textile division from operating loss of Rs. 3.91 crore in Q2FY19 to operating profit of Rs. 7.48 crore and continues to make operating profit in Q1FY20. Subsequently, MIL also reported operating profits in Q1FY20 against an operating loss of Rs. 10.41 crore in Q1FY19.

Scaling down of Denim Operation

The management has decided to substantially scale down its loss making denim operations and sell the surplus assets, current assets and monetise non-core assets to settle its liabilities towards ex-gratia payments to employees, repayment of loans, creditors and other liabilities. The same is expected to fetch Rs. 147.94 crore and will be materialised by March 2020.

The Company, after reviewing the utilisation of Property, Plant and Equipment, employee strength and carrying value of certain current/ non-current assets relating to denim operations, has decided to take the undernoted write-downs/provisions. MIL had to write down the value of plant & machinery (Rs. 39.25crore), current/non-current assets (Rs. 26.09 crore) and create a provision towards ex-gratia payments to employees (Rs. 18.27 crore) which are exceptional in nature in FY19.

As on Aug 31, 2019, the denim operation has an outstanding debt of Rs. 59.72 crore (Rs. 91.12 crore as of March 31, 2019). The company has a scheduled repayment obligation of Rs. 48.04 crore in FY20 and Rs. 26.66 crore in FY21. Of the total, Denim Operations has scheduled repayment obligation of Rs. 13.88 crore in FY20 as well as in FY21. MIL till August 31, 2019 has repaid Rs. 41.16 crore (Rs. 36.40 crore pertains to debt of denim operation out of the total scheduled repayment obligation in FY20). The payment has been done through asset sale and additional debt of Rs. 35 crore.

Significant deterioration in debt service coverage indicators

On account of dip in operating performance, MIL reported losses at operating as well as net levels. The company has been funding its losses through pledge as well as sale of NOCIL shares. The company sold ~7.5 lakh shares last year and realised Rs. ~12 crore from the same and has approval to sell another ~8.5 lakh shares.

The working capital facilities of the company are almost fully utilized with max utilization around 95% and the trade payables cycle is considerably stretched.

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.

Liquidity: Stretched

The company has been incurring cash losses on account of subdued performance of its denim operation. Current ratio is also below unity as on March 31st 2019.The working capital limits also remain utilised on average of 95% for 12 months ended August 2019.The Company has scheduled repayments of Rs.48 crore in FY20 and Rs.26 crore in FY20. In addition to the scheduled repayments the company is in the process of selling assets of denim operation and certain other non-core assets the proceeds of which would be used towards settling liabilities of denim operation. However, comfort can be derived from the company's investment in NOCIL Limited

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Rating methodology – Manufacturing companies
Rating Methodology-Wholesale Trading
Rating of Short Term instruments
Financials Ratio-Non Financial Sector
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 shirting, 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1195.23	1051.83
PBILDT	18.13	-47.14
PAT	-41.78	-180.07
Overall gearing (times)	0.31	0.43
Interest coverage (times)	0.59	-1.56

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

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	-	-	-	115.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	32.50	CARE BBB-; Negative / CARE A3
Term Loan-Long Term	-	-	-	49.27	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	115.00	CARE BBB-; Negative	-	1)CARE BBB-; Negative (22-Jan-19)	1)CARE BBB-; Negative (05-Mar-18) 2)CARE BBB; Negative (11-Sep-17)	1)CARE BBB (23-Aug-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	32.50	CARE BBB-; Negative / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (22-Jan-19)	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)
3.	Term Loan-Long Term	LT	49.27	CARE BBB-; Negative	-	1)CARE BBB-; Negative (22-Jan-19)	1)CARE BBB-; Negative (05-Mar-18) 2)CARE BBB; Negative (11-Sep-17)	1)CARE BBB (23-Aug-16)

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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