

Mahalaxmi Rubtech Limited

February 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	14.77	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.50 (enhanced from Rs.3.00 crore)	CARE A2 (A Two)	Reaffirmed
Long-term/Short-term Bank Facilities	12.45 (enhanced from Rs.9.55 crore)	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Facilities	30.72 (Rupees Thirty crore and Seventy Two lakh only)		

Details of facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The ratings of Mahalaxmi Rubtech Limited (MRTL) continue to derive strength from its experienced and resourceful promoters, established operations in the textile processing and weaving business as well as its niche offerings in the rubber-coated printing blanket business. The ratings further derive strength from MRTL's comfortable leverage, and debt coverage indicators as well as growth in its total operating income (TOI).

The ratings, however, continue to remain constrained by the subdued performance of MRTL's technical textile division, its presence in a highly competitive and cyclical textile industry along with regulatory risk pertaining to stringent compliance with pollution control norms pertaining to the textile processing business. The ratings also factor in marginal decline in MRTL's operating profit margin during FY16 (refers to the period April 01 to March 31) and 9MFY17 on back of inclusion of new division which generates relatively lower margins.

MRTL's ability to achieve break-even in its technical textile division as well as improve its scale of operations and profitability are the key rating sensitivities. Maintaining its capital structure and ensuring regular compliance with pollution control norms would also be crucial.

Detailed description of the key rating drivers

Key Rating Strengths

Introduction of new suiting processing division elevated its Total Operating Income (TOI): During FY16, MRTL reported healthy growth of 16% in its TOI on account of inclusion of new division i.e. 'Suiting Processing'. MRTL undertakes processing on suiting fabrics under this segment. The contribution to TOI from this segment has increased from 13% in FY16 to 30% in 9MFY17 indicating healthy demand and adequate execution capabilities.

Comfortable leverage, debt coverage with moderate liquidity: MRTL continued to operate at comfortable leverage as on March 31, 2016. The unsecured loans to the tune of Rs.18 crore have been subordinated to bank borrowing and same are being considered as part of net worth. Debt coverage indicators continued to remain strong with higher gross cash accruals and stable debt. Liquidity continued to remain moderate, marked by improvement in its operating cycle.

Established operations in textile Industry & resourceful promoter group: MRTL has established business operation in the textile value-chain and derives majority of income from processing through own fabric as well as processing on job work basis. MRTL also undertakes weaving of high quality grey fabric and manufacturing of rubber coated fabric (Technical textile). During FY16, it started a new division for suiting processing, which reported healthy growth in 9MFY17. Promoters are resourceful & have exhaustive experience in the textile industry. Promoters have demonstrated their support in the form of infusion of unsecured loans as and when required.

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

Key Rating Weaknesses

High degree of competition in textile processing resulting in margin pressure: The textile industry is highly fragmented in nature and presence of large number of small and medium players intensifies the competition which constraints the industry profitability. MRTL's PBILDT margin moderated during FY16 and 9MFY17 mainly due to competitive pressure and addition of 'Suiting Processing' division which generated relatively lower margin as compared to own grey cloth processing.

Inherent cyclical and regulatory risk associated with textile sector along with presence of stringent pollution control norms: Textile industry is cyclical in nature and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are determined by global demand-supply scenario and are not limited to only domestic demand and supply. Any shift in macroeconomic environment globally would have an impact on domestic textile industry. Moreover, textile processing requires compliance to stringent norms set by the Gujarat Pollution Control Board (GPCB) and any violation in compliance to these norms or any adverse change in these norms would adversely impact MRTL's operations.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1991, MRTL is promoted by Mr Jeetmal B. Parekh (Chairman) and his family members. MRTL is engaged in textile segments like weaving, textile processing (own as well as job work) and manufacturing of technical textiles like textile rubber printing blanket, offset printing blankets which find application in screen printing machines, web printing machines etc.

As on March 31, 2016, MRTL had an installed capacity of 36.40 lakh meters per annum for manufacturing of grey fabric and 558 lakh meters per annum of processing capacity.

As per the audited result for FY16, MRTL reported PAT of Rs.3.09 crore [Rs.3.19 crore in FY15] on a TOI of Rs.170.05 crore [Rs.146.10 crore in FY15]. Moreover, as per 9MFY17 provisional result, MRTL's PAT stood at Rs.2.45 crore on TOI of Rs.145.87 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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.

Annexure-1**Details of Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long-term	-	-	2022	9.77	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	12.45	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC	-	-	-	3.50	CARE A2

Annexure-2**Rating History (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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Term Loan-Long-term	LT	9.77	CARE BBB+; Stable	-	1)CARE BBB+ (03-Feb-16)	1)CARE BBB+ (31-Mar-15)	1)CARE BBB (19-Mar-14)
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+ (03-Feb-16)	1)CARE BBB+ (31-Mar-15)	1)CARE BBB (19-Mar-14)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.45	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+ / CARE A2 (03-Feb-16)	1)CARE BBB+ / CARE A2 (31-Mar-15)	1)CARE BBB / CARE A3+ (19-Mar-14)
4.	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	-	1)CARE A2 (03-Feb-16)	1)CARE A2 (31-Mar-15)	1)CARE A3+ (19-Mar-14)

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