Mahalaxmi Rubtech Limited

March 30, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	36.09 (reduced from Rs.39.93 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Long-term/ Short-term Bank Facilities	12.55	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	Reaffirmed
Short-term Bank Facilities	6.05	**CARE A2 (A Two)**	Reaffirmed
Total Facilities	**54.69 (Rupees Fifty Four Crore and Sixty Nine Lakh only)**		

Details of instruments/facilities in Annexure-1;

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Mahalaxmi Rubtech Limited (MRTL) continue to derive strength from its experienced and resourceful promoters, MRTPL's long and established track record of operations in the textile processing and weaving business as well as its niche offerings in the technical textile business which witnessed an improvement in performance during FY19 (Audited; FY; refers to April 1 to March 31). The ratings further derive strength from MRTL's comfortable leverage and debt coverage indicators, adequate liquidity and stable performance of MRTL's technical textile division.

The ratings, however, continue to remain constrained on account of MRTL's modest scale of operations in a highly competitive and cyclical textile industry, its moderate profitability and low ROCE and small net worth base, and regulatory risk associated with compliance of stringent pollution control norms for the textile processing business.

Rating Sensitivities

Positive Factors

- Volume driven growth in total operating income (TOI) beyond Rs.400 crore along with sustained operating profitability (PBILDT margin) of more than 12% and ROCE of 15% while maintaining its comfortable leverage and debt coverage indicators

Negative Factors

- Decline in TOI to lower than Rs.150 crore or decline in operating profitability with PBILDT margin below 6% on a sustained basis
- Elongation in net working capital cycle to beyond 90 days and increase in external borrowings to fund these requirements
- Any large sized debt-funded capex resulting in deterioration in debt coverage indicators in a short time frame

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: Mr. Jeetmal Parekh, Chairman and promoter of MRTL has more than four decades of experience in the textile industry and drives the strategic decision making of the company. The operations of MRTL are managed by his sons, Mr. Rahul Parekh and Mr. Anand Parekh. Mr. Rahul Parekh is associated with MRTL since 1992 and looks after the technical textile division of the company. Mr. Anand Parekh, associated with MRTL since 1995 [director since 2008], looks after processing and exports division. The management is further assisted by experienced and qualified professionals at various levels in the organization. Moreover, MRTL's promoters have demonstrated their support to the overall operations of the company by infusion of funds in the form of equity.

Long and established track record of operations in textile industry: MRTL has a track record of over two decades in the textile industry and has well established relationship with its customers and suppliers. MRTL has established business operations in the textile value chain and derives majority of its income from textile processing (around 40% of MRTL's TOI in FY19), wherein it has the capacity to process (print and dye) various type of fabrics. Apart from this, MRTL is also engaged in fabric weaving and trading of textiles products apart from manufacturing of technical textiles.

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

Improved performance of technical textile division: In its technical textiles division, MRTL produces rubber coated fabric, which is primarily used in offset printing machines. Over the last two-three years, the performance of the division has improved with increase in demand and better acceptance in the market, primarily in competition with the imported products. This also translated into better profitability of the division during the period, aiding the overall profitability of the company. During FY19, the revenue from technical textile division grew by around 11% with improved PBIDLT margin to around 28% as against 22% reported in FY18. Further, MRTL had announced capacity expansion for manufacturing of technical textiles with establishment of production facility for polymer coated fabric, which finds application in print media, window decors (as blinds), canvas and other coated fabrics. The project is expected to commence commercial operations by the end of April 2020 which was earlier expected to commence by September 2019. The capex is expected to further aid the growth in technical textile division along with profitability.

Improvement in its profitability; albeit remains at moderate level: During FY19, MRTL reported improvement of around 243 bps in its PBILDT margin to 9.07% (P.Y.: 6.64%), which was largely on account of change in revenue mix of processing division more towards the high margin job-work income along with improved performance of the technical textile division. During 9MFY20, MRTL reported growth of around 5% y-o-y in its TOI to Rs.140.18 crore, primarily on account of increase in revenue of technical textiles division. MRTL's PBILDT margin remained stable at 9.35% for 9MFY20. PAT margin also remained stable at 2.65% during 9MFY20.

Comfortable leverage and debt coverage indicators: MRTL had a comfortable leverage with an overall gearing of 0.44x as on March 31, 2019 (0.45x as on March 31, 2018), which remained stable at 0.40x as on December 31, 2019. MRTL's debt coverage indicators also remained comfortable with a PBILDT interest coverage of around 8 times and TD/GCA of 2.53 years during FY19 with a stable debt profile, improved profitability with steady cash accruals.

Liquidity: Adequate
MRTL's liquidity remained adequate marked by free cash & bank balance of Rs.19.00 crore as on March 31, 2019 and its moderate operating cycle of around 60 days in FY19. Further, relatively moderate utilization of its fund based working capital limits at around 60% for the trailing 12 months ended December 2019 provides additional cushion to its liquidity. Also, MRTL's annual debt repayment obligations of around Rs.3.75-6.77 crore till FY22 are expected to be met through internal accruals.

Key Rating Weaknesses
Modest scale of operation: Over the past few years, MRTL's scale of operations have remained range-bound with TOI between Rs.180-230 crore along with its moderate operating profitability primarily, due to its presence in highly competitive, fragmented and cyclical textile industry. During FY19, MRTL reported decline of around 19% y-o-y in its TOI, which was primarily on account of change in its revenue mix. However, revenue from weaving & technical textile increased in FY19, which partially off-set the decline in revenue from textile processing division. Furthermore, MRTL had a modest networth base of Rs.79.33 crore as on March 31, 2019. MRTL's small scale and modest networth base restricts its operational and financial flexibility in competitive and fragmented textile industry.

Intense competition because of fragmented nature of textile industry: The textile weaving and processing industry is highly fragmented in nature with a large number of unorganized players. Smaller processing 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. Furthermore, limited value addition and low technology intensity (consequently translating into thin profit margins), limits their bargaining power vis-à-vis their customers.

Inherent cyclicality and regulatory risk associated with textile sector along with risk associated with compliance of stringent pollution control norms: Textile industry is cyclical in nature and closely follows the macroeconomic business cycles. Further, 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 in domestic markets. Hence, any shift in macroeconomic environment globally would have an impact on domestic textile industry. Further, textile processing requires compliance to stringent norms set by pollution control authorities 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 Parekh and his family members. The company is engaged in weaving of fabric, textile processing (own as well as job work) and manufacturing of technical textiles (textile rubber printing blanket and offset printing blankets) which find application in screen and offset printing machines. As on March 31, 2019, MRTL had an installed capacity of manufacturing 36.40 lakh meters p.a. fabric and 558 lakh meters p.a. of fabric processing capacity.

Brief standalone financials of MRTL:

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	229.57	186.08
PBILDT	15.25	17.00
PAT	3.81	4.92
Overall gearing (times)	0.45	0.44
Interest coverage (times)	8.72	7.69

A – Audited;

Further, as per the un-audited published financial results for 9MFY20, MRTL reported a total operating income of Rs.140.18 crore and PAT of Rs.3.71 crore, compared with a total operating income of Rs.133.42 crore and PAT of Rs.4.25 crore reported in 9MFY19.

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
Term Loan-Long Term	-	-	February 2025	23.09	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	13.00	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	12.55	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC	-	-	-	3.50	CARE A2
Fund-based - ST-Working Capital Limits	-	-	-	2.55	CARE A2

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.	Term Loan-Long Term	LT	23.09	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (27-Feb-17)
2.	Fund-based - LT-Cash Credit	LT	13.00	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-19)	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (27-Feb-17)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	12.55	CARE BBB+; Stable / CARE A2	1)CARE BBB+; Stable / CARE A2 (02-Apr-19)	1)CARE BBB+; Stable / CARE A2 (02-Apr-18)	-	1)CARE BBB+; Stable / CARE A2 (27-Feb-17)
4.	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	1)CARE A2 (02-Apr-19)	1)CARE A2 (02-Apr-18)	-	1)CARE A2 (27-Feb-17)

5.	Fund-based - ST-Working Capital Limits	ST	2.55	CARE A2	1)CARE A2 (02-Apr-19)	-	-	-

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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