

Mahalaxmi Rubtech Limited

April 02, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	23.93 (enhanced from Rs.14.77 crore)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	3.50	CARE A2 [A Two]	Reaffirmed
Long-term/Short-term Bank Facilities	9.55 (reduced from Rs.12.45 crore)	CARE BBB+; Stable/ CARE A2 [Triple B Plus; Outlook: Stable/ A Two]	Reaffirmed
Total Facilities	36.98 (Rs. Thirty Six Crore and Ninety Eight Lakh Only)		

Details of instruments/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 textile processing and weaving businesses 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, growth in its total operating income (TOI) and improved performance of MRTL's technical textile division.

The ratings, however, continue to remain constrained by MRTL's 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.

MRTL's ability to improve its scale of operations with better 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

Experienced and resourceful promoters: Mr. Jeetmal Parekh, Chairman and promoter of MRTL has more than four decades of experience in the textile industry. He is involved in strategic decision making for the company. MRTL's operations are managed by 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 assisted by experienced and qualified professionals at various levels in the organization.

Established operations in textile industry: MRTL has established business operations in the textile value chain. MRTL derives majority of its income from textile processing wherein it has the capacity to process various fabrics for printing and dyeing. The company operates through four divisions - processing, weaving, trading and technical textile division. MRTL has a track record of over two decades in the textile industry and has well established relationship with its customers and suppliers.

Improved performance of technical textile division: In its technical textiles division, MRTL produces rubber and polymer coated fabric used in offset printing machines and textile printing machines. Though MRTL offers customized products under its technical textile division, it faced difficulties regarding the acceptance of the product in the Indian market and hence was unable to ramp up the production to the envisaged levels. However, during FY17, the division's TOI increased by 59% on a y-o-y basis to Rs.17.04 crore and further to Rs.15.62 crore in 9MFY18, on account of its increased demand backed by acceptance from the domestic customers. This also translated into better profitability of the division during the

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

period, aiding the overall profitability. Further, in March 2018, MRTL also announced capacity expansion for manufacturing of technical textiles.

Growth in scale of operations and comfortable leverage and debt coverage indicators: During FY17, MRTL reported growth of around 20% y-o-y in its total operating income (TOI) primarily on account of increase in income from trading division. Income from technical textiles division also increased, while that from processing and weaving division declined marginally. Exports remained largely stable in FY17 compared with that in the previous year. During the year, reported decline in its operating profitability mainly on account of higher proportion of trading income, which inherently has low profitability. As interest costs reduced during the year, the decline in PAT margin was lower compared to that in operating profitability. MRTL had a comfortable leverage position with an overall gearing of 0.38x as on December 31, 2017, which remained stable compared with 0.36x as on March 31, 2017. The low overall gearing was primarily on account of no major debt funded capex carried out over the last few years. Bank borrowings availed for funding working capital requirements contributed most to the outstanding debt. Also, MRTL's debt coverage indicators remained stable in FY17 with a TD/GCA of 2.44x with a stable debt profile and continued generation of cash accruals.

Key Rating Weaknesses

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 to larger integrated textile companies. Furthermore, limited value addition and low technology intensity (consequently translating into thin profit margins), limits their bargaining power vis-à-vis their customers.

Inherent cyclicity 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. 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. 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 the pollution control authorities and any violation in compliance to these norms or any adverse change in these norms could 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, Mahalaxmi Rubtech Limited (MRTL) is promoted by Mr. Jeetmal Parekh and his family members. MRTL is engaged in weaving of fabric, 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 and web printing machines. As on March 31, 2017, MRTL had an installed capacity of weaving 36.40 lakh meters of fabric per annum and 558 lakh meters of processing capacity per annum.

Brief financials of MRTL are tabulated below:

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	169.37	203.02
PBILDT	14.05	14.60
PAT	3.09	3.30
Overall gearing (times)	0.36	0.36
Interest coverage (times)	7.15	9.00

A- Audited

Further, during 9MFY18, MRTL reported sales of Rs.145.94 crore and PAT of Rs.2.43 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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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 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	-	-	March 2024	16.03	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	7.90	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	9.55	CARE BBB+; Stable/ CARE A2
Non-fund-based - ST-BG/LC	-	-	-	3.50	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 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.	Term Loan-Long Term	LT	16.03	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Feb-17)	1)CARE BBB+ (03-Feb-16)	1)CARE BBB+ (31-Mar-15)
2.	Fund-based - LT-Cash Credit	LT	7.90	CARE BBB+; Stable	-	1)CARE BBB+; Stable (27-Feb-17)	1)CARE BBB+ (03-Feb-16)	1)CARE BBB+ (31-Mar-15)
3.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	9.55	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (27-Feb-17)	1)CARE BBB+ / CARE A2 (03-Feb-16)	1)CARE BBB+ / CARE A2 (31-Mar-15)
4.	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	-	1)CARE A2 (27-Feb-17)	1)CARE A2 (03-Feb-16)	1)CARE A2 (31-Mar-15)

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