

Mahalaxmi Rubtech Limited

April 2, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	39.93 (enhanced from Rs.23.93 crore)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	6.05 (enhanced from Rs.3.50 crore)	CARE A2 (A Two)	Reaffirmed
Long-term / Short-term Bank Facilities	12.55 (enhanced from Rs.9.55 crore)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)	Reaffirmed
Total Bank Facilities	58.53 (Rs. Fifty Eight Crore and Fifty Three 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 the textile processing and weaving business as well as its niche offerings in the technical textile 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) during FY18 (FY refers to the period April 1 to March 31) and stable performance of MRTL's technical textile division.

The ratings, however, continue to remain constrained on account of MRTL's presence in a highly competitive and cyclical textile industry along with regulatory risk pertaining to stringent compliance with pollution control norms for the textile processing business.

MRTL's ability to derive envisaged benefits from the expansion in its technical textile division as well as improve its scale of operations and profitability along with regular compliance with pollution control norms are the key rating sensitivities. Maintaining its comfortable capital structure and liquidity would also be crucial from the credit perspective.

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 for 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.

Established 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 50% of MRTL's TOI in FY18), wherein it has the capacity to process (print and dye) various type of fabrics. Apart from this, MRTL is also engaged in weaving and trading of textiles as well as manufacturing of technical textiles.

Stable 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 with 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. Further, in March 2018, MRTL announced capacity expansion for manufacturing of technical textiles with

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

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 September 2019.

Growth in scale of operations, comfortable leverage and debt coverage indicators: During FY18, MRTL reported growth of around 13% y-o-y in its total operating income (TOI) driven by increase in income from its trading division. Income from textile processing & technical textiles division also increased, while that from weaving division declined marginally. During the year, MRTL reported marginal decline of 77 bps in its PBILDT margin to 6.64% (P.Y.: 7.41%) mainly on account of higher proportion of trading income in its TOI, which inherently has low profitability. However, in 9MFY19, MRTL reported decline of around 23% y-o-y in its TOI to Rs.133.42 crore, primarily on account of change in its policy regarding sale of fabric to its associate and other entities from finished fabric sale to jobwork basis. This translated into an improvement in MRTL's PBILDT margin during the period. MRTL had a comfortable leverage with an overall gearing of 0.45x as on March 31, 2018 (0.36x as on March 31, 2017), which remained stable at 0.50x as on December 31, 2018. MRTL's debt coverage indicators also remained comfortable with a TD/GCA of 2.55x as on March 31, 2018 (2.43x as on March 31, 2017) with a stable debt profile and continued generation of cash accruals.

Comfortable Liquidity: MRTL's liquidity continued to remain comfortable during FY18 and 9MFY19 marked by its stable operating cycle and comfortable utilization of its fund based working capital limits at around 63% for the trailing twelve months ended January 2019. Its repayment requirements over the next few years (Rs.4.16-6.67 crore p.a. during FY19-FY21) are expected to be met through internal 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 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 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 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, Mahalaxmi Rubtech Limited (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, 2018, 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 financials of MRTL are tabulated below:

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	203.41	229.57
PBILDT	15.07	15.25
PAT	3.34	3.81
Overall gearing (times)	0.36	0.45
Interest coverage (times)	7.55	8.72

A – Audited;

As per the provisional results for 9MFY19, MRTL reported a total operating income of Rs.133.42 crore and PAT of Rs.4.25 crore, compared with a total operating income of Rs.172.42 crore and PAT of Rs.2.43 crore in 9MFY18.

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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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	-	-	April 2025	26.93	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	26.93	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (27-Feb-17)	1)CARE BBB+ (03-Feb-16)
2.	Fund-based - LT-Cash Credit	LT	13.00	CARE BBB+; Stable	1)CARE BBB+; Stable (02-Apr-18)	-	1)CARE BBB+; Stable (27-Feb-17)	1)CARE BBB+ (03-Feb-16)
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-18)	-	1)CARE BBB+; Stable / CARE A2 (27-Feb-17)	1)CARE BBB+ / CARE A2 (03-Feb-16)
4.	Non-fund-based - ST-BG/LC	ST	3.50	CARE A2	1)CARE A2 (02-Apr-18)	-	1)CARE A2 (27-Feb-17)	1)CARE A2 (03-Feb-16)
5.	Fund-based - ST-Working Capital Limits	ST	2.55	CARE A2	-	-	-	-

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