

Maral Overseas Limited

March 06, 2017

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	146.33 (reduced from 146.85)	CARE BBB; Stable [Triple B; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities	157.66 (enhanced from 147.66)	CARE A3+ [A Three Plus]	Reaffirmed
Total Facilities	303.99 (Rupees Three Hundred Three crore and Ninety Nine lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Maral Overseas Limited (MOL) continue to derive strength from experienced promoters and management team of the company, its diversified product profile and established marketing tie-ups with leading apparel brands and its moderate financial risk profile.

These rating strengths are however partially offset by continuation of MOL under the ambit of Corporate Debt Restructuring (CDR) forum and susceptibility of its margins to volatility in raw material prices and foreign exchange fluctuations. The ratings also factor in high competition in the garment segment from China, Bangladesh and other cheap export-based countries and project execution risk.

Going forward, the ability of the company to increase its scale of operations and improve its profitability margins as well as its ability to complete the ongoing projects in time and without any cost overrun would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: MOL is a part of LNJ Bhilwara group, which was established in 1960 by Mr L N Jhunjhunwala. The group has presence in diversified sectors, including textile, power, electrodes and IT services. The group through its several companies is one of the major textile players in India having presence in entire value chain of the textile industry. Currently, MOL is headed by Mr Shekhar Agarwal (MD). He has an experience of more than three decades in this line of business.

Diversified product profile and established marketing tie-ups with leading apparel brands: MOL is engaged in the manufacturing of cotton yarn, knitted fabrics, processed fabrics and ready-made garments. The company also owns a fully-integrated dye house plant with latest technology having facility for dyeing of yarn. Furthermore, the clientele of MOL is diversified, primarily due to its varied product profile. Being in operations since the last two decades, MOL has established tie-ups with various agents and strong apparel brands like Cecil, Schiesser, Marks and Spencer etc.

Moderate financial risk profile: During FY16 (refers to the period April 01 to March 31), MOL reported total operating income of Rs.623.98 crore as against total operating income of Rs.658.77 crore in FY15, registering y-o-y decline of around 5%. PBILDT margin declined from 10.46% in FY15 to 8.32% in FY16 on account of lower sale realization as well as increase in employee benefit expenses.

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in the raw material prices and foreign exchange fluctuations: The basic raw material consumed by MOL to produce yarn is cotton (around 71% of the total raw material cost in FY16). Cotton prices, which are dependent on the government policies, effect of monsoon, etc have been highly volatile in the

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

past few years. Furthermore, yarn being a commodity, its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of MOL's fabric and garment verticals.

MOL derives major portion of its revenue from the export market (58% of total operating income in FY16). This exposes the company to foreign exchange fluctuation risk.

High competition in the garment segment from other export-based countries: In the garment segment, the company faces major competition from China, Bangladesh and other cheap export-based countries which sell garments at lower rates compared to India.

Project risk: MOL has undertaken a capex of Rs.35.55 crore for modernization and replacement of its existing machinery, improving waste collection system and zero liquid discharge system for effluent treatment. The capex is expected to be completed by September 2017. Furthermore, MOL has undertaken another capex of Rs.44.00 crore for modernization and replacement of its existing machinery. The project is expected to be completed by September 2018.

Analytical approach: Standalone

Applicable Criteria

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

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

[CARE's methodology for Short-term Instruments](#)

[CARE's Criteria for Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

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

[CARE's methodology for Cotton Yarn](#)

About the Company

Incorporated in 1989, MOL is a part of LNJ Bhilwara group. The company commenced production in 1992, with setting up of a 20,160 spindles cotton spinning plant for manufacturing of yarn which has increased over the years to 79,056 spindles (as on March 31, 2016). The company is also engaged in the manufacturing of knitted fabrics (6,500 MTPA), processed fabrics (7,200 MTPA) and ready-made garments (72 lac pieces per annum) with its manufacturing facilities located in Noida (U.P) and Khargone (M.P.).

MOL had approached the CDR forum in July 2008 and the restructuring proposal / package was approved on March 26, 2009. Since then, MOL continues to service its debt as per the CDR terms.

Established in 1960, LNJ Bhilwara Group is a diversified conglomerate having interest in textiles, power, engineering and IT services. The group through its several companies is one of the major textile players in India having presence in entire value chain of textile industry. The other group companies are BMD Private Limited ('CARE A+; Stable', 'CARE A1+'), RSWM Limited and BSL Limited.

During FY16 (refers to the period April 01 to March 31), MOL reported total operating income of Rs.623.98 crore and PAT of Rs.10.21 crore as against total operating income of Rs.658.77 crore and PAT of Rs.16.70 crore in FY15. Furthermore, during 9M FY17 (refers to the period April 01 to December 31), MOL reported total operating income of Rs.484.28 crore and PAT of Rs.11.58 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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About CARE Ratings:

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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
Fund-based - LT-Term Loan	-	-	September, 2022	146.33	CARE BBB; Stable
Fund-based-Short Term	-	-	-	143.63	CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	14.03	CARE A3+

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 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.	Fund-based - LT-Term Loan	LT	146.33	CARE BBB; Stable	1)CARE BBB (05-May-16)	1)CARE BBB (15-Apr-15)	-	1)CARE BBB (11-Mar-14)
2.	Fund-based-Short Term	ST	143.63	CARE A3+	1)CARE A3+ (05-May-16)	1)CARE A3 (15-Apr-15)	-	1)CARE A3 (11-Mar-14)
3.	Non-fund-based - ST-BG/LC	ST	14.03	CARE A3+	1)CARE A3+ (05-May-16)	1)CARE A3 (15-Apr-15)	-	1)CARE A3 (11-Mar-14)
4.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	1)CARE BBB (11-Mar-14)

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