Maral Overseas Limited

March 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	131.40 (enhanced from Rs. 116.71 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	184.78 (enhanced from Rs. 157.66 crore)	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**316.18 (Rupees Three Hundred Sixteen crore and Eighteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Maral Overseas Limited (MOL) continue to derive strength from its strong parentage, experienced promoters and management team, its diversified product profile and established marketing tie-ups with leading apparel brands. These ratings are, further strengthened by the geographically distributed operations of the company with low customer concentration risk.

These rating strengths are however partially offset by continuation of MOL under the ambit of Corporate Debt Restructuring (CDR) forum and susceptibility of its profitability margins to volatility in raw material prices and towards foreign exchange fluctuations risk. The ratings also factor in high competition in the garment segment and ongoing capex plans of the company.

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

Detailed description of the key rating drivers

Key Rating Strengths

Strong Parentage

MOL is a part of LNJ Bhilwara group, which was established in 1960 by Mr. L N Jhunjhunwala. LNJ Bhilwara group has its presence in the entire textile value chain from textile yarns to fabrics, knitwear and denims through its group companies namely BMD Pvt. Ltd. (rated CARE A+; Stable/ A1), Maral Overseas Ltd. (rated CARE BBB; Stable/ A3+), RSWM Limited and BSL Limited. The group has over the time diversified its business from textiles to manufacturing of graphite electrodes [through its group company namely HEG Limited], power generation & power engineering consultancy services (through its group companies namely BMD Power Private Limited, Bhilwara Energy Limited, Malana Power Company Limited, AD Hydro Power Ltd., NJC Hydro Power Ltd., Indo Canadian Consultancy Services Limited, Chango Yang Thang Hydro Pwer Limited, BG Wind Power Limited (rated CARE BBB-; Stable) and LNJ Power Ventures Limited) and to IT enabled services (through its group company namely Bhilwara Infotechnology Limited).

The production units and corporate offices of the Group are spread over 38 locations in India, and the Group employs more than 26,000 people. The turnover of the group was around Rs. 8157 crore during FY18 and net worth of the group was around Rs. 5912 crore as on March 31, 2018.

Experienced promoters and management team

MOL is currently headed by Mr. Shekhar Agarwal (MD) who did his B.Tech. (Mechanical Engineering) from IIT, Kanpur in 1975 and Master of Science in Industrial & Systems Engineering in 1976 from Illinois Institute of Technology, Chicago, USA. He has an experience of more than three decades in this line of business. He is well assisted by a management team having functional experience in related areas.

Diversified product profile and established marketing tie-ups with leading apparel brands

MOL is engaged in manufacturing of cotton yarn, knitted fabrics, processed fabrics and ready-made garments and has presence throughout the textile value chain. The company also owns a fully- integrated dye house plant with latest technology having facility for dying of yarn. During FY18, MOL derived around 58% (PY: 50%) of its net sales from yarn, around 24% (PY: 31%) from fabrics and around 18% (PY: 19%) of its net sales from garments.

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

The company sells its products in both domestic as well as export market and apart from this a significant portion of the cotton yarn and fabrics manufactured by the company is also used internally to manufacture fabric and garments.
Further, 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 M/s Cecil (Germany), M/s Schiesser (Germany), M/s Joy Sportwear (Germany), M/s Blair (USA), M/s. RNA Resources (Dubai), M/s Reitman (Canada), M/s Marubeni (Japan) etc.

Geographically diversified operations and low customer concentration risk
Being an export oriented unit, the company derived majority of its revenue from the export markets (company derived around 48% of its total revenue from the export markets in FY18 and around 53% in FY17). The company exports its products majorly to North America, Europe, Africa, Gulf and Middle East, Far East & South East Asian Countries.
Furthermore, there is low customer concentration risk as the company caters to a large customer base present across the globe. The same is indicated by the top 5 customers forming around 12% (PY: 15%) of the total operating income in FY18 and around 13% of total operating income in H1FY19.

Moderate Financial Risk Profile
During FY18, MOL reported gross sales of Rs. 640.77 crore as against sales of Rs. 666.70 crore in FY17, registering a y-o-y decline of 3.89%, on account of decrease in export sales from Rs. 353.93 crore in FY17 to Rs. 306.66 crore in FY18 due to increased competition from cheap export-based countries which sell garments at lower rates compared to India like Bangladesh, China. Also, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition and affecting margins in domestic market also. Further, due to high Cotton Prices in FY18, Average Per Kg Cost of Cotton for MOL had increased from Rs. 96.63 in FY17 to Rs. 107.24 in FY18, increased by around 11%. However, average sales realization of Yarn of MOL had increased from Rs. 197.35/Kg in FY17 to Rs. 200.44/Kg in FY18; at a rate of 1.57%. On account of this, PBILDT Margin of the company declined from 8.31% in FY17 to 5.23% in FY18.
During 9MFY19, the prices of cotton had further increased but the company has procured and stock cotton at low rates in the period of March, 2018 to May, 2018 anticipating the increase cotton price, however the company is able to sell yarn at better realization. Therefore, PBILDT Margin improved from 5.33% in 9MFY18 to 6.66% in 9MFY19.
Overall Gearing of the company improved from 2.71x as on March 31, 2017 to 2.56x as on March 31, 2018 on account of scheduled repayments of term loan and CRPS to banks.

Moderate Liquidity
During FY18, average working capital cycle of company remains high and stood at 101 days (PY: 115 days) on account of high inventory days as company's major raw material cotton is cyclic in nature and company has to maintain sufficient level of inventory for the entire period. Average inventory period for MOL remains in the range of 70-90 days (79 days for FY18) on account of MOL's policy to store good quality cotton which is usually available during the period October- April. Further, around 50% of sales of MOL is overseas sales, out of which company receives 30% of its sales in advance and balance 70 days at sight terms (between 25-30 days) and around 90% of its overseas creditors are LC backed in nature. For domestic sales, the company provides credit terms of 30 to 90 days and most of its creditors are LC backed in nature.
So, MOL has to rely on external borrowings to finance the stock requirements and to finance the credit given to its customers. Average of Max. working capital utilization of MOL stood at around 86% during the 12-month period ending December, 2018 owing to working capital intensive nature of operations of company.
Current Ratio of the company remains low with high repayments due in FY19 and stood at 0.85x as on March 31, 2018. The payables for FY19 is Rs. 41.42 crore (Rs. 13.82 crore of CRPS and Rs. 27.61 crore of term loans from banks).

Key Rating Weaknesses

Susceptibility of profitability margins to volatility in the raw material prices
The basic raw material consumed by MOL to produce yarn is cotton (Cotton consists of around 69% of the total raw material cost incurred by the company in FY18 and around 62% in FY17). Cotton prices, which are dependent on the government policies, effect of monsoon, etc. have been highly volatile in the past few years. Furthermore, the ability to transfer the volatility in raw material prices is limited on account of the low bargaining power of the companies with its suppliers as well as its customers, as the prices of both raw materials and finished goods are dependent upon the market conditions. 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.

Exposure to foreign currency fluctuation risk
MOL is exposed to foreign currency fluctuation risk as the company derives significant portion of its revenue from the export market (48% of total revenue of the company is derived from export sales in FY18). Thus, profitability margins of the company remains susceptible to any adverse movement in the foreign currency.
However, MOL also imports raw materials (Imports formed around 10% of total raw material consumed by the company) which provides the natural hedge to company to some extent. Further, the company hedges the balance forex risk through forward contracts (generally almost 100% of foreign currency exposure is hedged by the company), which mitigates the risk to some extent. As on March 31, 2018, the receivables of company in foreign currency stood at Rs. 30.56 crore (Rs. 28.00 crore in USD and Rs. 2.56 crore in EURO) and the payables stood at Rs. 6.73 crore (Rs. 2.26 crore in USD, Rs. 3.64 crore in EURO and Rs. 0.83 crore in CHF). Further entered into forward contracts to sell Rs. 28.00 crore of USD.
During FY18 the company has booked a net gain of Rs. 7.81 crore (PY: Rs. 9.50 crore) on foreign currency transaction and translation process.

High competition in the garment segment from other export-based countries
In the garment segment, the company faces major competition from China, Bangladesh, Sri Lanka and other cheap export-based countries which sell garments at lower rates compared to India. Domestic competition has been growing in the garment segment with the international brands entering India. Moreover, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition and affecting margins. Due to high cotton prices and competition from lower priced Bangladesh yarn, domestic especially the smaller yarn manufacturers are expected to be affected.

Project risk
MOL is engaged in the capex on the regular basis which is financed through a mix of debt and internal accruals. MOL has undertaken capex for modernization and replacement of its existing machinery, improving waste collection system and zero liquid discharge system for effluent treatment. Further, MOL is planning a capex in FY20 for setting up a new green field garment project in Indore and for modernisation and expansion of existing yarn and fabrics facility at its Sarovar Plant. Company is in planning to set up a new garment plant in Indore for creating operational synergies.
Going forward, the ability of the company to successfully complete all the capex undertaken on time and without any cost overrun would be a key rating sensitivity.

Analytical approach: Standalone
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's Criteria for Factoring Linkages in Ratings
Rating Methodology-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. 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 and redeemable on March 31, 2019. Since then, MOL continues to service its debt as per the CDR terms.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	677.29	649.39
PBILDT	56.25	33.96
PAT	13.83	0.99
Overall gearing (times)	2.71	2.56
Interest coverage (times)	3.14	1.82

A: Audited

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
Fund-based - LT-Term Loan	-	-	-	131.40	CARE BBB; Stable
Fund-based-Short Term	-	-	-	160.00	CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	24.78	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 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.	Fund-based - LT-Term Loan	LT	131.40	CARE BBB; Stable	-	1)CARE BBB; Stable (20-Mar-18)	1)CARE BBB; Stable (06-Mar-17) 2)CARE BBB (05-May-16)	1)CARE BBB (15-Apr-15)
2.	Fund-based-Short Term	ST	160.00	CARE A3+	-	1)CARE A3+ (20-Mar-18)	1)CARE A3+ (06-Mar-17) 2)CARE A3+ (05-May-16)	1)CARE A3 (15-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	24.78	CARE A3+	-	1)CARE A3+ (20-Mar-18)	1)CARE A3+ (06-Mar-17) 2)CARE A3+ (05-May-16)	1)CARE A3 (15-Apr-15)

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