Maral Overseas Limited

March 20, 2018

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long term Bank Facilities	116.71 (reduced from 146.33)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	157.66	**CARE A3+ (A Three Plus)**	**Reaffirmed**
Total	**274.37 (Rupees Two Hundred Seventy Four crore and Thirty Seven 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 experienced promoters and management team of the company, 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 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 other export-based countries and ongoing capex plans of the company.

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, 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 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. 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.

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

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 in FY17. The company exports its products majorly to North America, Europe, Africa, Gulf and Middle East, Far East & South East Asian Countries. During FY17, the company derived around 53% of its total revenue from export based sales as against 59% in FY16. The decline in %age of export revenue is due to decline in export sales to Europe on account of increased competition from countries like Bangladesh.

Further, 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 15% (PY: 15%) of the total operating income in FY17.

Moderate financial risk profile

During FY17, MOL reported total operating income of Rs.676.78 crore as against total operating income of Rs.623.96 crore in FY16, registering y-o-y growth of 8.47%. Domestic sales increased from Rs.252.17 crore in FY16 to Rs.312.50 crore in FY17, registering y-o-y growth of around 24%. The sales volume of yarn has decreased by 5%, the same was offset by higher sale realization in FY17 on account of relatively high raw material prices in FY17. Further, sales volume of fabrics and garments increased by around 12% for both the divisions in FY17. However, the sales realization of garments, which majorly derive its revenue from export sales, has declined during FY17 on account of increased competition from other export based competition (like Bangladesh, owing to low wages rates).

PBILDT margin remains stable at 8.18% in FY17 as against 8.32% in FY16. However, the PAT Margin of the company has improved from 1.64% in FY16 to 2.21% in FY17 on account of reduced interest expenses of the company due to repayment of term loan and CRPS (Cumulative Redeemable Preference Share) from Banks and FIs. However, during 9MFY18, the PBILDT Margin of the company has come down to 5.43% as against 9.74% in the corresponding prior period due to increased cotton prices and increased competition from the countries like Bangladesh and China.

Overall Gearing of the company improved from 3.05x as on March 31, 2016 to 2.49x as on March 31, 2017. Further, On account of lower interest charges, interest coverage ratio improved from 2.70x in FY16 to 3.61x in FY17. Total debt to GCA remains at similar level at 6.44x in FY17 as against 6.66x in FY16.

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 62% of the total raw material cost incurred by the company in FY17). Cotton prices, which are dependent on the government policies, effect of monsoon, etc. have been highly volatile in the past few years. Further, the ability of the company 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 (53% of total revenue of the company is derived from export sales in FY17). Thus, profitability margins of the company remains susceptible to any adverse movement in the foreign currency.

The company also imports raw materials (Imports formed around 9% of total raw material consumed by the company in FY17). However, the company hedges the fluctuation risk through forward contracts and also imports raw materials (Imports formed around 9% of total raw material consumed by the company in FY17), which mitigates the risk to some extent.

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. 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.

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. The projects are expected to be completed by March 2019.
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
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
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, 2017). 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.
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, BSL Limited and HEG Limited.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	623.96	676.78
PBILDT	51.93	55.36
PAT	10.21	14.95
Overall gearing (times)	3.05	2.49
Interest coverage (times)	2.70	3.61

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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About CARE Ratings:

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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	-	-	Dec, 2024	116.71	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 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.	Fund-based - LT-Term Loan	LT	116.71	CARE BBB; Stable	-	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	143.63	CARE A3+	-	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	14.03	CARE A3+	-	1)CARE A3+ (06-Mar-17) 2)CARE A3+ (05-May-16)	1)CARE A3 (15-Apr-15)	-

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CIN - L67190MH1993PLC071691