Maral Overseas Limited

October 06, 2020

Ratings

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	85.89	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Rating and Outlook revised from "Stable" to "Negative"**
Short-term Bank facilities	184.78	**CARE A3 (A Three)**	**Reaffirmed**
Total	**270.67 (Rupees Two Hundred Seventy Crore and Sixty Seven Only)**		

Details of 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 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. The ratings also takes into account moderation in financial risk profile of the company marked by loss reported in FY20 (refers to the period from April 01, 2020 to March 31, 2020) and Q1FY21 (refers to the period from April 01, 2020 to June 30, 2020). The ratings are further constrained 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, high working capital utilization and towards foreign exchange fluctuations risk and its presence in highly competitive market. However, the ratings*

MOL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 03, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating Sensitivities:

Positive factors:

- Improvement in profitability margins marked by PBILDT margin exceeding 9% on sustained basis
- Overall gearing of less than 1.5x

Negative factors

- Deterioration in capital structure with overall gearing of more than 3.5x
- Sustained negative cash accruals

Outlook: Negative

The 'Negative' outlook on the long-term rating of MOL reflects CARE's expectation of lower than previously envisaged operating performance and profitability of MOL in the medium-term due to adverse impact on demand for textile products owing to outbreak of Covid-19 pandemic. The apparel segment is expected to be more vulnerable, given its sensitivity to consumer demand and sentiment. Recovery in consumer demand is likely to be gradual given the discretionary nature of the apparel products in the backdrop of economic slowdown across the globe. There is expectation of a cascading impact on demand for other textile products including cotton yarn and fabric. Consequently, MOL's profitability, cash accruals and debt coverage indicators are expected to remain lower than previously envisaged in the medium term. This may be partially mitigated by potential cost savings arising from various cost rationalisation measures being undertaken by the company. The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in sustained and significant improvement in company's operational and financial risk profile, aided by realisation of envisaged benefits from cost saving measures.

Detailed Description of 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. The group is a well-diversified conglomerate with interests in textiles, graphite electrodes, power generation & power engineering consultancy services and IT enabled services. 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; Negative/CARE A2+), Maral Overseas Ltd., RSWM Limited and BSL 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.

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. 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 are also used internally to manufacture fabric and garments. Further, the customer base 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 almost half of its revenue from the export markets. The company exports its products majorly to Far East & South East Asian Countries, Europe, North America, Gulf and Middle East, Africa etc. 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 14% (PY: 11%) of the total operating income in FY20.

Key Rating Weakness

Weak financial risk profile

During FY20, MOL reported total operating income of Rs.687.38 crore as against total operating income of Rs.769.11 crore in FY19, registering a y-o-y decline of ~11%, mainly on account of major decrease in export sales and loss of sales in the month of March 2020 post imposition of lockdown. Further, PBILDT margin has moderated significantly in FY20 to 2.78% as compared to 6.25% in FY19 owing to higher operating overheads. The company has reported loss of Rs. 15.28 cr in FY20 as against PAT of Rs. 8.13 cr in FY19. However, the company continued to earn cash profit of Rs. 9.13 cr in FY20.

The capital structure of the company has deteriorated with overall gearing of 3.20x as on March 31, 2020 from 2.66x as on March 31, 2019 on account of erosion of networth due to losses. During FY20, debt coverage indicators like PBILDT/Interest and Total debt/GCA also moderated to 1.22x and 28.21x respectively (PY: 2.83 and 8.49x respectively).

Q1FY21 Performance: During Q1FY21, MOL has reported TOI of Rs.68.39 cr registering y-o-y de-growth of 64% on account of lockdown imposed by the Government of India on outbreak of pandemic COVID-19. The PBILDT stood negative at Rs. 4.84 cr and the company reported loss of Rs. 14.89 crore (Q1FY20 PBILDT: Rs. 11.93 cr, PAT: Rs. 1.09 cr).

Susceptibility of profitability margins to volatility in the raw material prices: The basic raw material consumed by MOL to produce yarn is cotton. 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. Put one ,line on competatation also

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. Thus, profitability margins of the company remains susceptible to any adverse movement in the foreign currency.

The company also imports raw materials which provide 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.

Adverse impact of Covid-19 pandemic on textile sector: The closure of retail stores and malls on account of lockdown situation across the nation will affect textile industry's sales. On the international front, spread of Covid-19 in top export destinations such as Europe and US. Even after the lockdown is lifted, gradual and delayed recovery is likely in consumer demand given the relatively discretionary nature of the apparel products in the backdrop of likely economic slowdown. There may be a cascading impact on demand of other textile products including cotton yarn and fabric. Further, the labour intensive nature of operations of the textile sector could impact its profitability due to sub optimal capacity utilization in near term for ensuring adherence to norms of social distancing. The strength of the recovery will be contingent on the duration and extent of the Covid-19 pandemic, where a prolonged downturn in apparel demand will constrain revenues and earnings of the sector. Further, in medium to long term, some demand from US and EU market is expected to shift gradually from China to other major garmenting manufacturers including India to reduce dependence on China.

Liquidity: Stretched
Current Ratio of the company remains below unity with high levels of repayments due within one year.. Average working capital utilization stood at over 93% owing to working capital intensive nature of operations of company. MOL has to rely on external borrowings to finance the stock requirements and to finance the credit given to its customers. During FY20, average working capital cycle of company stood at 70 days (PY: 71 days). The working capital cycle of the company remains high 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.
To tide over the uncertainty attached to the Covid-19 outbreak, the company has approached its lenders for taking the moratorium facility for its debt obligations, which is in line with the Covid-19 regulatory package. As informed to CARE, this is in the anticipation of the said approval from the concerned lenders following the regulatory package by RBI; some of the scheduled repayments were deferred by the company.

Analytical approach: Standalone financials of MOL

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
CARE's methodology for Factoring Linkages in Ratings

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 engaged in the manufacturing of grey yarn (19,100 MTPA), dyed yarn (4,000 MTPA), 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	769.11	687.38
PBILDT	48.10	19.08
PAT	8.13	(15.28)
Overall gearing (times)	2.66	2.91
Interest coverage (times)	2.83	1.22

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2

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	-	-	FY2026	85.89	CARE BBB-; Negative
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	85.89	CARE BBB-; Negative	1)CARE BBB-; Stable (30-Jun-20)	1)CARE BBB; Stable (09-Sep-19)	1)CARE BBB; Stable (13-Mar-19)	1)CARE BBB; Stable (20-Mar-18)
2.	Fund-based-Short Term	ST	160.00	CARE A3	1)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)	1)CARE A3+ (13-Mar-19)	1)CARE A3+ (20-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	24.78	CARE A3	1)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)	1)CARE A3+ (13-Mar-19)	1)CARE A3+ (20-Mar-18)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based-Short Term	Simple
3.	Non-fund-based - ST-BG/LC	Simple

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:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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