

## Maral Overseas Limited

September 09, 2019

### Ratings

Facility	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank facilities	102.26	<b>CARE BBB; Stable (Triple B; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short-term Bank facilities	184.78	<b>CARE A3+ (A Three Plus)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>287.04 (Rupees Two Hundred Eighty Seven crore and Four lacs only)</b>		

*Details of 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.*

*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 strategy towards capex would be the key rating sensitivities.*

### 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+; Stable/CARE A1), Maral Overseas Ltd. (rated CARE BBB; Stable/ A3+), 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. 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 dyeing of yarn. During FY19, MOL derived around 47% (PY: 51%) of its net sales from yarn, around 31% (PY: 25%) from fabrics, around 16% (PY: 17%) from garments and around 6% (PY: 7%) of its net sales from cotton waste.

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 Sportswear (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 (company derived around 50% of its total revenue from the export markets in FY19). 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 11% (PY: 12%) of the total operating income in FY19.

#### **Moderate Financial Risk Profile**

During FY19, MOL reported total operating income of Rs. 769.11 crore as against total operating income of Rs. 649.39 crore in FY18, registering a y-o-y growth of 19%, on account of increase in export sales from Rs. 306.65 crore in FY18 to Rs. 380.42 crore in FY19. The PBILDT Margin of the company improved by 102 bps to 6.25% in FY19. The PAT Margin stood at 1.06% in FY19. Overall Gearing of the company improved from 2.95x as on March 31, 2018 to 2.66x as on March 31, 2019 on account of scheduled repayments of term loan and CRPS to banks.

During Q1FY20, MOL has reported TOI of Rs. 190 cr registering y-o-y growth of 7%. During Q1FY20, The PBILDT stood at Rs. 11.93 cr and PAT stood at Rs. 1.09 crore (Q1FY19 PBILDT: Rs. 13.21 cr, PAT: Rs. 2.69 cr).

#### **Key Rating Weakness**

##### ***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 65% of the total raw material cost incurred by the company in FY19). 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 (50% of total revenue of the company is derived from export sales in FY19). 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. As on March 31, 2019, the receivables of company in foreign currency stood at Rs. 30.33 crore (Rs. 28.97 crore in USD and Rs. 1.36 crore in EURO).

##### ***Liquidity: Moderate***

Current Ratio of the company remains below unity with high levels of repayments due within one year. Current ratio of the company stood at 0.88x as on March 31, 2019. Average of Max. working capital utilization of MOL stood at around 86% during the 12-month period ending June 30, 2019 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 FY19, average working capital cycle of company stood at 71 days (PY: 96 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.

**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](#)
- [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 and redeemable on March 31, 2020. Since then, MOL continues to service its debt as per the CDR terms.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	649.39	769.11
PBILDT	33.96	48.10
PAT	0.99	8.13
Overall gearing (times)	2.95	2.66
Interest coverage (times)	1.82	2.83

**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	-	-	FY2025	102.26	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	102.26	CARE BBB; Stable	-	1)CARE BBB; Stable (13-Mar-19)	1)CARE BBB; Stable (20-Mar-18)	1)CARE BBB; Stable (06-Mar-17) 2)CARE BBB (05-May-16)
2.	Fund-based-Short Term	ST	160.00	CARE A3+	-	1)CARE A3+ (13-Mar-19)	1)CARE A3+ (20-Mar-18)	1)CARE A3+ (06-Mar-17) 2)CARE A3+ (05-May-16)
3.	Non-fund-based - ST-BG/LC	ST	24.78	CARE A3+	-	1)CARE A3+ (13-Mar-19)	1)CARE A3+ (20-Mar-18)	1)CARE A3+ (06-Mar-17) 2)CARE A3+ (05-May-16)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

**Media Contact:**

Name: Mradul Mishra  
Contact no.: +91-22-6837 4424  
Email ID – mradul.mishra@careratings.com

**Analyst Contact:**

Name: Manek Narang  
Contact no.: +91-11- 45333233  
Email ID: manek.narang.careratings.com

**Relationship Contact:**

Name: Swati Agrawal  
Contact no. : +91-11-4533 3200  
Email ID: swati.agrawal@careratings.com

**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.

**Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**