

Press Release

Mafatlal Industries Limited

June 17, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	174.00	ACUITE BBB- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	22.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	196.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 196.00 Cr bank facilities of Mafatlal Industries Limited. The outlook is revised from '**Stable**' to '**Positive**'.

Rationale for the rating and revision in outlook

The revision in outlook is primarily on account of the significant turnaround in operating performance of MIL in FY2022 and improvement in liquidity profile on the back of successful monetization of the non-core assets. MIL's operating income improved to Rs. 997.25 Cr. in FY2022 against Rs. 615.51 Cr. in FY2021. MIL's operating margin also improved to 2.25 percent in FY2022 from negative 5.52 percent in FY2021. Further, the rating continues to draw comfort from the MIL's comfortable capital structure and monetizable assets in form of unencumbered shares of NOCIL Limited. However, the company's working capital intensive operations and modest albeit improving coverage indicators remain as constraining factors for the rating. MIL's ability to sustain its scale of operations, profitability and further improving its coverage indicators will continue to remain key rating sensitivity.

About the Company

Mafatlal Industries Limited (MIL), incorporated in the year 1913, was founded by Mr. Mafatlal Gagalbhai and is currently led by Mr. Hrishikesh Arvind Mafatlal and is based out of Mumbai, Maharashtra. The company is one of the oldest textile manufacturers in India and is engaged in manufacturing and sale of fabric in various categories of cotton, polyester cotton, linen, voiles rubia, etc. The company has a presence of over 11 decades in textile manufacturing player and is a part of Arvind Mafatlal Group. The company is widely recalled for its innovative manufacturing facilities since 1905. The company is currently headed by Mr. Priyavrata Mafatlal, MD and CEO for the company.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Mafatlal Industries Limited (MIL) for arriving at the rating.

Key Rating Drivers

Strengths

Reputed business household with a vintage track of operations

MIL is a 117 years old textile manufacturing player in India and part of Arvind Mafatlal Group founded by Mr. Mafatlal Gagalbhai. The current promoters of the company have an experience of greater than six decades in the business and are involved in the day to day operations as well strategic decision making of the company. Chairman of MIL Mr. Hrishikesh Mafatlal has an experience of more than 35 years and is on the board of Mafatlal Industries since 1979. Mafatlal is one of the oldest brands recalled for its presence in the textiles industry for readymade garments, school uniforms, corporate garments, home textiles, etc. MIL's business is spread across the country with a robust dealer and B2B network spanning across all zones with more than 400 dealers and 35,000 retailers. MIL is having an integrated manufacturing facility from spinning, weaving, yarn dyeing to processing. The product portfolio includes garments/ fabrics for men and women, upholstery items, uniforms for schools, corporate houses, personal hygiene among others. Company has already created brands under "Mafatlal Healthcare" brands like "Coocoo", "UNICHOICE", "MEDIMEF" and "Frolica" are flagship brands.

Acuité believes that with a vast experience of the management along with distinguished and diversified product profiles and with an established brand name of "Mafatlal" the business risk profile is expected to remain comfortable and will support the operations over the medium term.

Availability of monetizable assets in form of unencumbered shares of NOCIL Limited

MIL holds 2.52 Cr of shares of NOCIL Limited, out of which 0.50 Cr shares have been pledged to lenders against the borrowings and remaining 2.02 Cr shares are unencumbered and are worth ~Rs. 642 Cr. as on June 02, 2022. The unencumbered shares can be monetized by the company at any given emergency in the business. This serves as a cushion of liquidity for MIL in case of any uncertainty or mismatches of cash flow in the business going further. MIL is adequately equipped against any shortfall in liquidity or cash flow mismatches on account of the availability of shareholding of NOCIL Limited

Successful completion of non-core asset monetization and turnaround in operating performance

MIL has closed down its denim operations based out of Navsari, Gujarat and has monetized the assets. During FY2022 the company has sold of the land parcels in Navsari and other non-core assets for total proceeds of Rs. 56 Cr. and a profit of Rs. 47 Cr. Further, MIL has also reported a turnaround in the operations. It has reported revenue of Rs. 997 Cr. against Rs. 615 Cr. in FY2021. Its operating profitability has also improved to 2.25 percent in FY2022 against negative 5.52 percent in FY2021. This is primarily on account of scale up of trading segment of MIL through execution of large institutional and Government orders and reduction in labour cost which had been a legacy issue. MIL has used part of the asset monetization proceeds to settle the past labour dues and part of it to reduce its long-term debt. MIL's manufacturing operations are still incurring loss which remains a key monitorable. Going forward MIL's operations are expected to further improve as company has orders in hand of Rs. 230 Cr., further orders are expected in uniform segments as schools have reopened. Profitability is also expected to improve as legacy labour issues are now resolved.

Acuite believes MIL's ability to sustain its scale of operations and profitability will remain key a rating sensitivity parameter.

Weaknesses

Moderate capital structure and modest albeit improving coverage indicators

The financial risk profile of MIL is characterized by moderate capital structure and moderate albeit improving debt protection metrics. The company reported tangible net worth of Rs. 684.53 Cr. as on March 31, 2022 against Rs. 464.21 Cr as on March 31, 2021. The increase in the

net worth is largely on account of change in the value of shares held in NOCIL Limited reported through other comprehensive income. The value of MIL's holding in NOCIL Limited stood at Rs. 642 Cr. as on June 02, 2022. Consequently the gearing improved to 0.16 times as on March 31, 2022 against 0.32 as on March 31, 2021. MIL's debt protection metrics have also improved on the back of improvement in profitability. Interest coverage ratio and debt service coverage ratio improved to 3.58 and 1.42 times respectively in FY2022 which stood negative in the previous financial year. MIL's total debt stood at Rs. 112.02 as on March 31, 2022 reducing from Rs. 147.78 Cr. in the previous year. The total consists of significant long term debt of ~Rs. 57 Cr. and working capital debt of Rs. 54 Cr. MIL's capital structure is expected to remain stable in absence of any large capex plan.

Acuité expects that given MIL's substantial long term debt, continued improvement in its revenue and profitability will remain a key factor for MIL to generate cash inflows which will commensurate with its repayment obligations.

Moderately intensive working capital operations

MIL's working capital operations remained moderately intensive marked by gross current asset days (GCA) of 155 days as on March 31, 2022 and 187 days in the previous year. The GCA days are driven primarily by receivable period of 94 days as on March 31, 2022 against 132 days in the previous year. MIL primarily works with large institutional buyers and have to extend credit period of around 90 days. MIL majorly holds finished goods inventory and follows an inventory holding policy of standard 30 to 40 days to cater the demand. The inventory days stood at 27 days in FY2022 against 14 days in FY2021. However, the company also procures garments from large number of other units and is able to leverage its scale to get adequate credit period. Thus the MIL's working capital limit utilisation remained moderate at 65 percent for 6 month period ended March 2022. However, its creditor period stood at 160 days in FY2022 against 168 days in FY2021.

Acuité believes the working capital cycle is expected to remain on similar lines however any elongation in the working capital cycle which affects its liquidity profile will remain key sensitivity parameter.

Susceptibility to volatility in prices of key raw materials

Cotton prices have exhibited considerable volatility in the recent past due to various reasons, such as government policies, effects of monsoon, demand-supply scenario, etc. Profitability margins of textile manufacturers are exposed to adverse movement in cotton prices thus any unprecedented increase in the raw material going forward, may impact the profitability margins of MIL.

Rating Sensitivities

- Sustained improvement in its scale of operations and profitability
- Elongation in working capital cycle affecting liquidity profile

Material covenants

None

Liquidity Position - Adequate

MIL has adequate liquidity witnessed from the adequate cash and bank balances of Rs. 52.86 Cr in the form of balances in hand and current account which is further supported by the unencumbered shares of NOCIL Ltd which has a market value of Rs.642 Cr as on June 02, 2022. These shares are held by MIL and can be monetized in case of any emergency. The fund based working capital limits are also utilised moderately at 65 percent as on March 2022 which provides liquidity buffer. The company's repayments are expected to be in the range of Rs. 16-18 Cr. over the medium term against net cash accrual (NCA) of Rs. 30 Cr. to Rs. 40 Cr. for the same period.

Outlook - Positive

Acuité has revised the outlook of MIL to 'Positive' from 'Stable' on account of successful execution of asset monetization and turnaround in operating performance and profitability. The rating may be upgraded in case of sustained improvement in revenue and profitability. Conversely, the outlook may be revised to 'Stable' in case of lower than expected growth in revenue and profitability or with any significant elongation in working capital cycle or any unexpected debt-funded capital expenditure weighing down the overall capital structure and leading to deterioration of its liquidity.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	997.25	615.51
PAT	Rs. Cr.	29.29	(93.75)
PAT Margin	(%)	2.94	(15.23)
Total Debt/Tangible Net Worth	Times	0.16	0.32
PBDIT/Interest	Times	3.58	(2.35)

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
31 Mar 2021	Term Loan	Long Term	12.56	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	10.03	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	5.18	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	6.19	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	35.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	18.04	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	62.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
SVC Co-Op Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 Reaffirmed
ICICI Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	23.24	ACUITE BBB- Positive Reaffirmed Stable to Positive
Cosmos Bank	Not Applicable	Term Loan	Not available	Not available	Not available	17.50	ACUITE BBB- Positive Reaffirmed Stable to Positive
CSB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	1.28	ACUITE BBB- Positive Reaffirmed Stable to Positive
Exim Bank	Not Applicable	Term Loan	Not available	Not available	Not available	7.07	ACUITE BBB- Positive Reaffirmed Stable to Positive
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	5.41	ACUITE BBB- Positive Reaffirmed Stable

Janta Sahakari Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	17.50	to Positive ACUITE BBB- Positive Reaffirmed Stable to Positive
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*Letter of Credit facility of SVC Co-op Bank and ICICI Bank is fully interchangeable with Bank Guarantee.

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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