

Press Release

Mafatlal Industries Limited

April 14, 2023



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	136.50	ACUITE BBB Stable Upgraded Positive to Stable	-
Bank Loan Ratings	59.50	-	ACUITE A3+ Upgraded
Total Outstanding Quantum (Rs. Cr)	196.00	-	-

Rating Rationale

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

Rationale for the rating upgrade

The rating upgrade is majorly on account of growth in the business risk profile of the company marked by improvement in operating performance, improvement in liquidity profile on the back of successful monetization of non-core assets and adoption of Asset Light Business Model. The operating performance of the company have witnessed continuous improvement during FY22 and 9MFY23. The company reported growth of ~62% YoY in operating income to Rs.996.81 Cr. in FY22 as against Rs.615.51 Cr. in FY21. Furthermore, the revenue from operations of the company improved ~69% YoY during 9MFY23 to Rs. 1019.06 Cr. as against Rs.604.76 Cr. in 9MFY22. The operating profit margin of the company also improved to 5.22% in 9MFY23 from 2.25% in FY22 and (5.52)% in FY21. Further, the rating also draws comfort from MIL's comfortable capital structure and monetizable assets in form of unencumbered shares of NOCIL Limited. The rating is however constrained by working capital intensive nature of operations of the company albeit comfortable coverage indicators and exposure to intense competition in a fragmented industry.

About the Company

MIL incorporated in the year 1913, was founded by Mr. Mafatlal Gagalbhai and is currently led by Mr. Hrishikesh Arvind Mafatlal and his son Mr. Priyavrata H 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, knits etc. The company has a presence of over 11 decades in textile manufacturing 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 of the company.

Analytical Approach

Acuité 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 with a vintage track of operations

MIL is a 118 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 44 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 including spinning, weaving, yarn dyeing and 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.

Improvement in business risk profile and availability of monetizable assets

The business risk profile of the company has witnessed improvement marked by healthy growth in operating revenue to Rs. 996.81 Cr. in FY22 as against Rs. 615.51 Cr. in FY21 reflecting a YoY growth of ~62% during the period. Furthermore, the revenue from operations of the company improved ~69% YoY during 9MFY23 to 1019.06 Cr. compared to Rs.604.76 Cr. in 9MFY22. The growth is primarily driven by successful execution of orders received from various State governments and B2B customers. In FY22, the company has also successfully completed non-core asset monetization with a profit worth ~Rs.47 crore in FY22

The profitability of the company also witnessed improvement reflected by growth in operating profit margin from (5.52)% in FY21 to 2.28% in FY22 and 5.22% in 9MFY23. Also, the company has reported PAT of Rs.25.72 Cr. in 9MFY23 and Rs.29.29 crore in FY22 against loss of 93.75 crore in FY21. MIL holds 2.52 Cr number of shares of NOCIL Limited, out of which 0.58 Cr number of shares have been pledged to lenders against the borrowings and remaining 1.94 Cr number of shares are unencumbered. 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.

Further, the Company has reduced its term loan liability significantly which supports the profitability and liquidity.

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

Moderate Financial Risk Profile

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. 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 years. MIL's total debt stood at Rs. 112.02 as on March 31, 2022 compared to Rs. 147.78 Cr. in the previous year. This consists of 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 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.

Weaknesses

Working capital intensive nature of operations

The operations of the company are working capital intensive in nature marked by GCA days of 155 days for FY22 as against 187 days for FY21. The GCA days is majorly on account of receivable days of 94 days for FY22 compared against 132 days for FY21. MIL primarily works with large institutional buyers and have to extend credit period of around 90 days. The inventory levels of the company stood at 27 days during the same period compared against 14 days for FY21. MIL majorly holds finished goods inventory and follows an inventory holding policy of standard 30 to 40 days to cater the demand. However, the company also procures garments from large number of other units and is able to leverage its scale to get adequate credit period. The creditor days of the company stood at 160 days for FY22 compared to 168 days for FY21. However, MIL's working capital limit utilisation remained moderate at 44.32% for fund based and 80.56% for non-fund-based facilities for the eight months ended February 2023.

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, coal and polyester 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

The liquidity position of the company remained adequate on account of adequate net cash accruals against matured debt obligations. The net cash accruals of the company stood at Rs.44.96 Cr. against matured debt obligations of Rs. 22.19 Cr. during the same period. Also,

the company is expected to generate net cash accruals of Rs. 95.47 Cr. to Rs. 100.65 Cr. in FY23-24 period as against maturing repayment obligations of Rs. 16.89 Cr. during the same period.

Furthermore, the average fund-based utilisation by the company remains moderate at 44.32% and 80.56% for non-fund-based facilities for the eight months ended February 2023 despite working capital intensive nature of operations. Also, the company maintains a cash balance of Rs. 52.86 crore as on 31st March 2022. The liquidity is also supported by the 2.52 Cr. number of shares of NOCIL Ltd. These shares can be monetized by the company at any given exigency in the business.

Acuité believes that the liquidity position of the company will continue to remain adequate on account of adequate net cash accruals against its matured repayment obligations and liquidity cushion provided by NOCIL.

Outlook: Stable

Acuité believes that outlook on the company will remain 'stable' over the medium term on account of continuous improvement in scale of operations and established track record of operations in the textile industry with experienced management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in the company's revenues and profitability while maintaining efficient working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further weakening of its capital structure and debt protection metrics.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	996.81	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>
- Trading Entitle: <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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
26 Sep 2022	Term Loan	Long Term	13.42	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	1.28	ACUITE BBB- (Withdrawn)
	Working Capital Demand Loan	Long Term	10.00	ACUITE BBB- Positive (Reaffirmed)
	Bank Guarantee	Short Term	40.00	ACUITE A3 (Reaffirmed)
	Secured Overdraft	Long Term	22.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB- (Withdrawn)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	17.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	13.42	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	4.96	ACUITE BBB- Positive (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB- Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	2.70	ACUITE BBB- Positive (Reaffirmed)
	Secured Overdraft	Long Term	22.00	ACUITE BBB- Positive (Reaffirmed)
17 Jun 2022	Term Loan	Long Term	17.50	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	5.41	ACUITE BBB- Positive (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	7.07	ACUITE BBB- Positive (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	17.50	ACUITE BBB- Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	23.24	ACUITE BBB- Positive (Reaffirmed)
	Letter of Credit	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	62.00	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	1.28	ACUITE BBB- Positive (Reaffirmed)

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	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3+ Upgraded
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB Stable Upgraded Positive to Stable
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Stable Upgraded Positive to Stable
SVC Co-Op Bank Limited	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3+ Upgraded
Deutsche Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.10	ACUITE BBB Stable Upgraded Positive to Stable
Janta Sahakari Bank Ltd.	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB Stable Upgraded Positive to Stable
SVC Co-Op Bank Limited	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE BBB Stable Upgraded Positive to Stable
Cosmos Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.84	ACUITE BBB Stable Upgraded Positive to Stable
CSB Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	15.00	ACUITE BBB Stable Upgraded Positive to Stable
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Exim Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.72	BBB Stable Upgraded Positive to Stable
Janta Sahakari Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.84	ACUITE BBB Stable Upgraded Positive to Stable
SVC Co-Op Bank Limited	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	10.00	ACUITE BBB Stable Upgraded Positive to Stable

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About Acuité Ratings & Research

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