MAFATLAL INDUSTRIES LIMITED

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September 1, 2022

To,
Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai- 400001
BSE Code: 500264

Dear Sir,

Re: Intimation under Regulation 30 of SEBI (LODR) Regulations, 2015.
Sub: Reaffirmation of Credit Rating.

Pursuant to Regulation 30 of the SEBI (LODR) Regulations, 2015 this is to inform you that CARE Ratings Ltd, has reaffirmed the ratings to the bank facilities of the Company as under:

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.50 (Reduced from 161.80)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	59.50 (Enhanced from 22.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**200.00* (Rs. Two Hundred Crore Only)**		

* earlier it was 193.80

A copy of the Press Release of Care Edge Ratings is attached herewith. Further the same is also available on the website of Care Edge Ratings at www.careedge.in and the weblink is as follows:

https://www.careratings.com/upload/CompanyFiles/PR/30082022065424_Mafatlal_Industries_Limited.pdf

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Mafatlal Industries Limited

Amish Shah
Company Secretary
Encl.: as above

ARVIND MAFATLAL GROUP
The ethics of excellence

Mafatlal Industries Limited

August 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
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Short Term Bank Facilities	10.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**200.00 (₹ Two Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating factors in, the increase in top line and profitability of MIL in FY22 & Q1FY23, which is expected to further improve in medium-term with improvement in product mix of the company. MIL's financial flexibility in terms of its investment in NOCIL shares and other adequate liquidity parameters continues to aid the rating. The rating also continues to draw comfort from the experienced promoter group and the brand of "Mafatlal". The rating however continues to be strained by moderate profitability margins and susceptibility in raw material prices.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of business to Rs. 1,200 crore on a sustained basis
- The ability of the company to report PBILDT margins above 4% on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration of margins leading to losses at operating levels
- Delays in sale of non-core assets resulting in higher interest outflow/impacting liquidity

Detailed description of the key rating drivers

Key rating strengths

Recovery in revenue; positive revenue growth momentum to continue in near to medium term: Post weathering the covid-impact, MIL has rebounded to pre-covid level, with significant revenue growth of 63% in FY22. Company has achieved revenue of Rs. 987.91 crores in FY22 backed by sales improvement in its product mix, surge in demand from the customers resulting in increase in volumes. The capacity utilisation of MIL in manufacturing segment has improved to 84% in Q1FY23 (FY22: 57.05%; FY21: 40.28%). Also, MIL has booked 57% growth in sales volume in FY22 as against 55% decline observed in FY21.

Along with existing product portfolio, the company is in process of strengthening its 'Healthcare & Personal Hygiene' product segment, this being a high margin segment. Moreover, the school uniform segment has bounced back with re-opening of schools thus supporting the revenue growth. As on July 12, 2022, MIL has an order book of Rs. 250.00 crores to be executed within the coming three to four months.

Improvement in credit metrics owing to comfortable capital structure and positive profitability during FY 22: The interest coverage has improved to 2.36x in Q1FY23 (Q1FY22: negative 1.27x; FY22:1.05; FY21: negative 1.62x) owing to positive PBILDT booked by the company for the third consecutive quarter. The gearing continues to remain below unity in FY22 considering low debts in the books of the company. Company has adopted 'asset-light model' approach and hence there will not be any major debt led capex in medium term, which will continue supporting the gearing ratio in medium term. The gearing ratio is also supported by increase in its net worth, which is majorly on account of MIL's investment in NOCIL. MIL has other sources of income such as rental income, interest income and dividend income which are recurring in nature and contributes Rs. 2.00 crores to 4 crores of profit to the bottom line as per historical track record over FY18-FY22. The profit from this recurring income marginally supports the debt servicing ability of the company.

Experienced promoters and management along with long track record of the company: The promoters of Mafatlal Industries Limited (MIL) i.e. the Mafatlal family have over ten decades of experience in the textile industry and has been closely involved in the management of business and in defining & monitoring the business strategy for the company. Mr. H. A. Mafatlal the chairman of MIL, a graduate from Harvard Business School of U.S.A. has more than 40 years of experience in areas like

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

textile, petrochemicals, and chemicals. MIL is professionally managed with the members of the Board comprising of eminent professionals having wide experience and business acumen and well supported by the key management personnel having good experience in the industry

Established brand image and wide geographical coverage: MIL has built a brand image for itself being in the market for more than ten decades. The products of the company are principally marketed under the "Mafatlal" brand. For its new business vertical, which the company has entered in FY19 under 'Mafatlal Healthcare', brands like "Coocoo", "UNICHOICE", "MEDIMEF" and "Frolica" has been created. MIL has a wide distribution network with 400 dealers and 35,000 retailers making the company's brands available across India. The export contributed 4% (FY21: 7%) to the total revenue of the company during FY 22. Currently, the company is focused more on catering to domestic demand. In exports, company sells more of voiles to middle eastern countries.

Key rating weaknesses

Susceptible to volatility in prices of key raw material: Cotton and polyester are the key raw materials for MIL. 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. Also, polyester being crude derivative is vulnerable to price change. Profitability margins of textile manufacturers are exposed to adverse movement in these commodity prices thus any unprecedented increase in the raw material going forward, may impact the profitability margins of MIL. The company was able to increase average selling price by 25% to pass the increase in raw material prices to consumers, thus mitigating the pricing risk.

Modest profitability: albeit improvement is seen from FY22: The overall PBILDT margin of the company continues to remain modest given that more than 75% of revenue is from trading and outsourcing segment. However, the profitability has turned positive in FY22 to 1.98% (FY21: negative) owing to reduction in personnel cost, restarting of spinning and weaving facility and improvement in product mix. The company has been able to bring down the personnel cost to 4% in FY22 from 12% in FY18 due to reduction in staff. MIL has renegotiated the wages, replaced the permanent employees with contract workers, offered VRS to the permanent employees to bring down the cost. This has played major role in lowering the fixed cost obligations. Moreover, with restarting of spinning and weaving unit, the cost has reduced due to in-house production. Along with all these factors, the company is in process of expanding the health care segment, thus paving a way to further improve the profitability in near to medium term.

Delay in sale of non-core asset: With regards to monetisation of non-core assets, delays have been observed historically. As of November 2021, for asset located in Nadiad, Gujarat, a deal of Rs. 35.00 crores was entered by the company, for which advance of Rs. 2.00 crores had been received. The same deal stands cancelled now. MIL is planning to sell out a commercial property based out in Mumbai which is estimated to be around Rs. 30.00 crores- Rs. 35.00 crores in FY23-FY24. The monetisation of these non-core asset remains key monitorable in upcoming years as the gross cash accruals are equally supported by monetisation of these assets along with other factors.

Liquidity: Adequate

The company's adequate liquidity is reflected by gross cash accrual of Rs. 47.91 crores in FY22. With expected sustainability in the operational performance of MIL, the gross cash accrual is expected to continue its moderate momentum in medium term. Also, the free cash and bank balance of the company as on July 13, 2022, stood at Rs. 27.00 crores. In addition to this, MIL's average maximum utilisation of fund-based limits (of Rs. 87.00 crores) is comfortable at 73% for last twelve months ended July 31, 2022. As against this adequate liquidity, the company has repayment obligation of only Rs. 14.20 crores and Rs. 18.20 crores in FY23 & FY24.

MIL also holds 2.02 crore of unencumbered shares in NOCIL as on March 31, 2022.The market value of these unencumbered shares is over Rs. 500.00 crores as on July 24, 2022. While these shares are part of promoters holding in NOCIL, the said shareholding remains available to MIL for monetisation.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Wholesale Trading

About the company

Incorporated in the year 1913, Mafatlal Industries Limited (MIL) is among India's oldest textile companies. Its brand, Mafatlal is one of the country's widely recalled textile brands. MIL is an integrated textile player with spinning, weaving and processing facility at Nadiad. It produces a range of products, which includes 100% cotton and polyester/ cotton blends, consisting of yarn dyed and piece dyed shirtings, poplins, bottom wear fabrics, cambric's, fine lawns and voiles. The company also supplies school and office uniform materials. MIL has an extensive distribution network catering to global brands like Jack & Jones, Wrangler, Lee and C&A as well as domestic brands like Killer, Mufti, Spykar and Allen Solly. The company primarily has two major divisions i.e Textiles (manufacturing of fabric) contributing around 26% (27% in FY21) and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 74% (65% in FY21) to total sales in FY22.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	604.38	987.91	380.29
PBILDT	-35.81	19.53	9.9
PAT	-93.75	29.29	16.16
Overall gearing (times)	0.32	0.18	NA
Interest coverage (times)	-1.62	1.05	2.36

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	77.56	CARE BBB-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	59.50	CARE BBB-; Stable / CARE A3
Term Loan-Long Term		-	-	March 26, 2026	52.94	CARE BBB-; Stable
Fund-based - ST-Term loan		-	-	September 2022	10.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	77.56	CARE BBB-; Stable	1)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)	1)CARE BB+; Stable (06-Oct-20)	1)CARE BBB-; Negative (04-Oct-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	59.50	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (10-Aug-22)	1)CARE BB+; Positive / CARE A4+ (30-Nov-21)	1)CARE BB+; Stable / CARE A4+ (06-Oct-20)	1)CARE BBB-; Negative / CARE A3 (04-Oct-19)
3	Term Loan-Long Term	LT	52.94	CARE BBB-; Stable	1)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)	1)CARE BB+; Stable (06-Oct-20)	1)CARE BBB-; Negative (04-Oct-19)
4	Fund-based - ST-Term loan	ST	10.00	CARE A3	1)CARE A3 (10-Aug-22)	1)CARE A4+ (30-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Term loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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