MAFATLAL INDUSTRIES LIMITED

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October 07, 2020

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: Revision in Credit Rating**

This is to share that Credit Analysis & Research Limited (CARE) has recently revised the ratings of the Company as follows:

| Sr. No. | Instrument/Facilities | Revised Rating | | | Previous rating (Revised from) |
|---|---|---|---|---|---|
| | | Type | Amount (Rs.in Crores) | Rating 1 | |
| 1 | Long-term - Term Loan | LT | 78.34 | **CARE BB+** | **CARE BBB-** |
| 2 | Long-term fund based bank facilities – CC | LT-CC | 97.50 | **CARE BB+** | **CARE BBB-** |
| 3 | Long-term/Short-term non-fund based bank facilities – LC/BG | LC/ST | 20.00 | **CARE BB+/ CARE A4+** | **CARE BBB-/ CARE A3** |
| **Total** | | | **195.84** | | |

A copy of the Press Release of CARE is attached herewith. Further the same is also available on the website of CARE at www.careratings.com and the weblink is as follows:

https://www.careratings.com/upload/CompanyFiles/PR/Mafatlal%20Industries%20Limited-10-06-2020.pdf

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
**For Mafatlal Industries Limited**

**Ashish A. Karanji**
**Company Secretary**
Encl.: as above

ARVIND MAFATLAL GROUP
The ethics of excellence

# Mafatlal Industries Limited

October 06, 2020

**Ratings**

| Bank Facilities | Amount (Rs. crore) | Rating | Rating Action |
|---|---|---|---|
| Long-term - Term Loan | 78.34 (enhanced from 49.27) | **CARE BB+; Stable (Double B Plus; Outlook: Stable)** | **Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) and outlook revised from Negative** |
| Long-term fund based bank facilities – CC | 97.50 (reduced from 115.00) | | |
| Long-term/Short-term non-fund based bank facilities – LC/BG | 20.00 (reduced from 32.50) | **CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook: Stable/A Four Plus)** | **Revised from CARE BBB-; Negative/CARE A3 (Triple B Minus; Outlook: Negative/A Three) and outlook revised from Negative** |
| **Total** | **195.84 (Rs. One hundred ninety five crore eighty four lakh only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in ratings assigned to the bank facilities of Mafatlal Industries Limited (MIL) factor in continued losses due to delays in scaling down the loss making denim division, delays in sale of assets leading to higher debt than envisaged and weak debt coverage indicators. CARE expects the company's business profile in FY21 to be significantly impacted in the wake of COVID-19 pandemic, decline in sales from school uniform segment and due to discretionary nature of products manufactured and traded by the company.

Curtailed operations and delays in sale of plant & machinery and non-core assets will lead to reduced cash flows and thereby impacting its debt servicing capabilities.

The ratings also factor in the susceptibility to inherent cyclicality in the industry, exposed to volatility in the cotton price which is the main raw material and intense competition in the textile industry.

The ratings continue to derive strength from the extensive experience of the promoters and the management in the textile business, wide product portfolio & geographical coverage and liquidity available through holding in shares of NOCIL Limited.

MIL had sought a moratorium on payments from its lenders as part of the COVID19 - Regulatory Package announced by the RBI on March 27, 2020. Non-recognition of default in the above cases is as per the guidance provided by the SEBI circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020.

**Key Rating Sensitivities**

**Positive factors**

- Increase in scale of business to Rs. 1,000 crore on a sustained basis
- The ability of the company to report PBILDT margins in the range of 8-10% on a sustained basis

**Negative factors**

- 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 Weaknesses**

***Improvement of operational performance in FY20; FY21 to be impacted due to COVID-19:*** For FY20, MIL's revenues remained stagnant at Rs. 1035 crore as against Rs. 1052 crore in FY19. However, with the scaling down of loss-making denim division and improvement in performance of textile division, the company reported operating profit of Rs. 16.83 crore as against operating loss of Rs. 47.14 crore in FY19.

Going ahead, the operational performance of the company is going to be significantly impacted due to lockdown in most parts of the country, subsequent extension of localised lockdowns, adverse impact on the school uniform sales and discretionary nature of the apparels and other products manufactured and traded by the company. Further, due to COVID-19 and participation in government tenders, the management expects elongation in its working capital cycle; albeit funded by creditors.

Curtailed operations and delays in sale of plant & machinery and non-core assets will lead to reduced cash flows and thereby impacting its debt servicing capabilities.

***Delays in sale of assets and winding up of denim division:*** The management had earlier anticipated to scale down its denim operations by the end of FY20. However there were delays in finding suitable buyers along with regulatory delays. The sale got further delayed due to COVID-19 resulting in increase in cost of carrying debt of the denim division. The management recently announced that virtually all the workers of the company at Navsari have opted for voluntary retirement scheme. The company has liquidated the stocks of finished goods, raw material and spares and other non-core assets. The machinery required for Textiles has been transferred to Nadiad Unit. The company has thus consolidated its entire Textiles operations at Nadiad. Accordingly, the board has approved the shutdown of Navsari operations by December 31, 2020.

***Debt service coverage indicators continue to remain weak:*** During FY20, debt coverage ratios such as interest coverage, total debt to GCA, total debt to cash flows from operations improved to 0.54x, 43.35x and 3.86x as on March 31, 2020 as against -1.56x, -1.44x and 4.90x as on March 31, 2019 respectively on account of company reporting profit at operating level. Although, the ratios improved, they continue to remain weak.
Further, even as total debt declined, the company's capital structure deteriorated to 0.54x as on March 31, 2020 as against 0.41x as on March 31, 2019 on account of significant erosion of company's networth caused by loss in value of investments by Rs. 206.05 crore (non-cash) and net loss of Rs. 13.71 crore.

***Susceptible to volatility in prices of key raw material:*** Cotton and cotton yarn 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. 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.

**Key Rating Strengths**
***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 35 years of experience in areas like 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.

***Integrated presence across the textile value chain:*** MIL has presence across the entire textile value chain. The company has integrated nature of operations comprising of manufacture of yarn, dyeing, processing and finishing for both denims and shirting/bottom ware fabric. Apart from the diversified product range the company also has well diversified customers and markets.

***Established brand image and wide geographical coverage:*** MIL's more than 100 years of presence in the textile industry has helped the company to build a brand image for itself. The products of the company are principally marketed under the "Mafatlal" brand. MIL has a wide distribution network with 400 dealers and 35,000 retailers making the company's brands available across India. The company exports to 18 countries and exports contributed to 7% of gross sales in FY20.
Further, the company's customers are well spread across India with top 5 customers accounting for 25.70% of total gross sales.

**Industry Outlook**
**Cotton and cotton yarn**
The demand for cotton yarn is expected to decline significantly in H1FY21 leading to deterioration in the operational and financial performance of the companies engaged in the segment. Cotton yarn prices, which were already under pressure in FY20, are expected to decline further in FY21. However, cotton being a seasonal crop, major procurement by spinning mills happens till February/ March, thereby fixing their procurement costs. With yarn realization expected to decline, and majority of the procurement cost already fixed, the spread and profitability margins of the industry players are expected to witness a further deterioration. Also, with declining cotton prices, domestic spinners could be looking at inventory losses in the future. With major procurement of cotton almost done, majority players will be having limited cushion available in their working capital borrowings. Delay in payment from customers has also increased their reliance on the external borrowings. To address the liquidity concerns of the industry, some solace has been provided by the Reserve Bank of India (RBI) in the form of moratorium announced on the payment of term loan installment and interest on working capital borrowings along with easing of working capital financing. This will lead to many companies resorting to incremental working capital borrowings from banks.

CARE does not expect any major capacity increase in the industry in the next one year, with only a few large integrated players expected to undertake some capacity expansion. However, with declining profitability and increased working capital borrowings, CARE expects debt coverage indicators of the companies in the industry to remain under pressure at least in the next two quarters. Large companies having sufficient liquidity cushion in the form of cash & liquid investment and/ or unused working capital lines are expected to be better placed compared to their counterparts with limited liquidity cushion and holding large inventories.

**Manmade Fibre/yarn**

The demand for manmade fibre/yarn is also expected to remain subdued due to low downstream demand. Also, exports will remain affected in the man-made fibre segment, which accounted for around 40% of the total man-made fibre production during FY19.

India is increasingly importing cheap apparel from Bangladesh, which sources cheap fabric from China. Not only is Bangladeshi apparel more affordable, but imports of clothing from Bangladesh also do not attract any duty under the South Asian Free Trade Agreement (SAFTA).

Decline in crude oil prices though will improve the liquidity position for MMF players but will also result in inventory losses. Synthetic fibre and yarn manufacturers are expected to benefit from removal of anti-dumping duty on purified terephthalic acid (PTA), the key raw material used to produce synthetic fibre and yarn, and lower PTA prices in FY21. While low raw material prices will ease some pressure on spinners' margins, sales revenues will continue to remain under pressure in FY21. Inverted duty at fabric stage has resulted in cloth manufacturers buying imported PSF and PFY. This is because unlike synthetic fabric, which attracts a GST of 5%, synthetic yarn attracts GST of 12%.

**Liquidity Position: Stretched**

For FY21, MIL has a scheduled debt repayment of Rs. 16.26 crore, of which it has repaid Rs. ~6 crore. The company's liquidity remains stretched on account of cash losses made in Q1FY21, insufficient cash equivalents of Rs. 2.58 crore parked in fixed deposits and high utilisation of working capital limits (Average utilisation for August 2020 – 80.58%). The company has liquidity cushion available in form of board approval to sell 8.5 lakh shares of NOCIL limited (Value as on 17-Sep-20 – Rs. 11.30 crore).

For Q1FY22, the company has a bullet repayment of Rs. 35 crore along with other scheduled repayments. MIL is looking to rollover/refinance the term loan and is there exposed to refinance risk.

The company has entered into MoUs to sell non-core assets amounting to Rs. 78.61 crore (as on August 2019) and has received Rs. 34.32 crore through sale/advances. MIL expects these deals to be concluded before March 31, 2021. Proceeds from the sale of non-core assets would be used to pare debt and for supporting business growth.

MIL holds 2.53 crore shares of NOCIL Ltd., of which 0.54 crore shares have been pledged. As on September 17, 2020, the market value of 1.99 crore unencumbered shares is over Rs. 260 crore. While these shares are part of promoters holding in NOCIL, the said shareholding is available to MIL for monetisation.

**Analytical approach:** Standalone

**Applicable Criteria**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Wholesale Trading
Rating Methodology-Cotton Textile Manufacturing
Criteria for Short Term Instruments
Financials Ratio-Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

**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 and Navasari. 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 (post the announcement of closure of denim division in FY19), Textiles (manufacturing of fabric) contributing around 37% and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 51% to total sales in FY20. In addition to that the company has a cogeneration plant that meets around 30% of the total power requirements.

| Brief Financials (Rs. Crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 1051.83 | 1034.94 |
| PBILDT | -47.14 | 16.83 |
| PAT | -180.07 | -13.71 |
| Overall gearing (times) | 0.41 | 0.54 |
| Interest coverage (times) | NM | 0.54 |

*A: Audited; NM: Not Meaningful*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for 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-Cash Credit | - | - | - | 97.50 | CARE BB+; Stable |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 20.00 | CARE BB+; Stable / CARE A4+ |
| Term Loan-Long Term | - | - | Feb 2025 | 78.34 | CARE BB+; Stable |

**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-Cash Credit | LT | 97.50 | CARE BB+; Stable | - | 1)CARE BBB-; Negative (04-Oct-19) | 1)CARE BBB-; Negative (22-Jan-19) | 1)CARE BBB-; Negative (05-Mar-18)<br>2)CARE BBB; Negative (11-Sep-17) |
| 2. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 20.00 | CARE BB+; Stable / CARE A4+ | - | 1)CARE BBB-; Negative / CARE A3 (04-Oct-19) | 1)CARE BBB-; Negative / CARE A3 (22-Jan-19) | 1)CARE BBB-; Negative / CARE A3 (05-Mar-18)<br>2)CARE BBB; Negative / CARE A3+ (11-Sep-17) |
| 3. | Term Loan-Long Term | LT | 78.34 | CARE BB+; Stable | - | 1)CARE BBB-; Negative (04-Oct-19) | 1)CARE BBB-; Negative (22-Jan-19) | 1)CARE BBB-; Negative (05-Mar-18)<br>2)CARE BBB; Negative (11-Sep-17) |

**Annexure 3: Complexity level of various instruments rated for this company**

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

## Contact us

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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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