Mafatlal®
MAFATLAL INDUSTRIES LIMITED

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August 4, 2023

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 the CARE Ratings Limited, has upgraded the ratings of the Company as follows:

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	114.70	CARE BBB; Stable	Revised from CARE BBB-; (BBB minus) Stable
Long Term / Short Term Bank Facilities	39.50	CARE BBB; Stable / CARE A3+ (A3 plus)	Assigned
Long Term / Short Term Bank Facilities	59.50	CARE BBB; Stable / CARE A3+ (A3 plus)	Revised from CARE BBB- (BBB minus); Stable / CARE A3
Short Term Bank Facilities	10.00	CARE A3+ (A3 plus)	Revised from CARE A3

A copy of the letter dated 3rd August, 2023 from CARE Ratings Limited is attached herewith.

Further the same is available on the website of CARE Ratings Limited at https://www.careratings.com/ and the weblink is as follows:

https://www.careratings.com/upload/CompanyFiles/PR/202308150853_Mafatlal_Industries_Limited.pdf

We request you to kindly take the same on record.

Thanking you,

Yours faithfully,
For Mafatlal Industries Limited
AMISH KUMAR SHAH
Digitally signed by AMISH KUMAR SHAH
Date: 2023.08.04 15:04:09 +05'30'
Amish Shah
Company Secretary
Encl.: as above

Mafatlal Industries Limited

August 03, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	114.70	CARE BBB; Stable	Revised from CARE BBB-; Stable
Long Term / Short Term Bank Facilities	39.50	CARE BBB; Stable / CARE A3+	Assigned
Long Term / Short Term Bank Facilities	59.50	CARE BBB; Stable / CARE A3+	Revised from CARE BBB-; Stable / CARE A3
Short Term Bank Facilities	10.00	CARE A3+	Revised from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the ratings assigned to bank facilities of Mafatlal Industries Limited (MIL) considers substantial improvement in MIL's performance in FY23 and expected sustainability of the same in near to medium term. The rating continues to benefit from experienced promoter group and its adequate liquidity. The rating continues to remain constrained by its moderate profitability margins given the asset light outsourcing nature of the business and susceptibility in raw material prices in its manufacturing segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant improvement in scale of operations on sustained basis while maintaining operating margin at 3%.

Negative factors

- Deterioration in operating margin below 1.8% on sustained basis.
- Deterioration in overall gearing above 1.5x and any stretch in liquidity profile of the company.
- Significant decline in MIL's investment in NOCIL Limited.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the expected improvement in both top line as well as absolute EBITDA backed by expected improvement and diversification across its key revenue segments.

Detailed description of the key rating drivers:

Key strengths

Healthy revenue growth in FY23 likely to continue in FY24

Given the track record of Mafatlal Industries Limited (MIL) into corporate and school uniform segment for more than two decade and its expertise in successful bidding of tenders, CARE Ratings expects the top line to grow on a sustain basis in near to medium term. During FY23, the company had recorded 37% growth in its total income from operations at Rs. 1372.48 crores in FY23 (FY22: Rs. 1000.30 crores) owing to improvement in revenue across all key segments such as uniforms (Corporate and School), healthcare & personal hygiene segment. In addition to this, the capacity utilisation of the company in the manufacturing segment has improved to 82% in FY23 from 57% of FY22. The contribution from manufacturing segment has improved based on both volume as well as realisation.

In FY23, the Company forayed into a new segment i.e. Technology, by participating in various Government tenders to set up digital classrooms along with providing of necessary hardware required for the same.

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

Improvement in leverage coverage indicators likely to continue in FY24
MIL continues to follow an asset light approach which ensures no significant capex and hence no long-term debt in medium term. In addition to this, continuance of higher credit period offered by suppliers has led to moderate utilisation of working capital limits.
This enables MIL to maintain low debt level in the company and hence CARE expects the credit metrics to remain comfortable in near to medium term. The overall gearing continues to remain below unity at 0.15x as on March 31, 2023 (As on March 31, 2022: 0.16x). The comfortable gearing continues to derive major support from MIL's investment in NOCIL which supports the net worth of MIL. The interest coverage of the company has improved to 2.08x in FY23 (FY22:1.06x) on account of improved absolute EBITDA at Rs.36.78 crores (FY22: Rs. 19.65 crores). Increasing top line and few high margin orders have resulted in an improvement in EBITDA in absolute terms.

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 has more than 40 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.

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 1000 dealers and 35,000 retailers making the company's brands available across India. The export contributed 3% (FY22: 4%) to the total revenue of the company during FY 23. Currently, the company is focused more on catering to domestic demand.

Key weaknesses

Modest profitability: albeit improvement is seen from FY23:
CARE Ratings expects the operating profitability of the company to continue to remain modest given that 76% of revenue is derived from trading and outsourcing segment. Owing to MIL's outsourcing led asset light business model approach, the company is focused on high volume and low margin business model. The profitability has improved marginally to 2.68% in FY23 (FY22: 1.95%) owing to comparatively high better margin orders in healthcare and personal hygiene segment across the revenue segments.

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 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. Given that the manufacturing contributes 26% towards the total business, MIL's pricing risk is exposed to the same extent. In addition to this, the company adopts 'cost plus' mechanism in its outsourcing, which enables to mitigate the raw material price volatility risk in outsourcing segment.

Liquidity: Adequate

The liquidity of the company is adequate with expected gross cash accrual to be above Rs.40.00 crores in FY24-FY25 against the repayment principal debt obligation of Rs. 16.9 crores and Rs.16.40 crores for the period. Historically, the GCA continued to be supported by non-operating income which majorly comprised of proceeds from monetisation of non-core asset and same is expected to continue till FY24. Post FY24, CARE Ratings expect the GCA to continue above Rs.40.00 crores backed by expected improvement in absolute EBITDA. MIL's free cash and bank position stood at Rs.53.44 crores as on March 31, 2023 (As on March 31, 2022: Rs.64.49 crores). Furthermore, MIL holds 1.94 crores of unencumbered shares in NOCIL Limited as on June 01, 2023, the market value of which is Rs.403.44 crores as on July 12, 2023. While these shares are part of promoters holding in NOCIL, the said shareholding remains available to MIL as a liquidity. The liquidity of the company is majorly supported by the high credit period extended by the suppliers and hence the average maximum utilisation of fund-based limit stands comfortable at 71% for last twelve months ended May 31, 2023.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

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. The company primarily has two divisions i.e Textiles (manufacturing of fabric) contributing around 24% (26% in FY22) and Marketing and sales division (Supplies school and office uniform, a kind of trading activity) contributing around 76% (74% in FY22) to total sales in FY23.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,000.19	1,372.48	585.56
PBILDT	19.53	36.79	12.33
PAT	29.29	37.48	27.48
Overall gearing (times)	0.16	0.15	NA
Interest coverage (times)	1.05	2.08	3.55

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	77.00	CARE BBB; Stable
Fund-based - ST-Term loan		-	-	September 2023	10.00	CARE A3+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	39.50	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-BG/LC		-	-	-	59.50	CARE BBB; Stable / CARE A3+
Term Loan-Long Term		-	-	March 2026	37.70	CARE BBB; Stable

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	77.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-22) 2)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)	1)CARE BB+; Stable (06-Oct-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	59.50	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (30-Aug-22) 2)CARE BBB-;	1)CARE BB+; Positive / CARE A4+ (30-Nov-21)	1)CARE BB+; Stable / CARE A4+ (06-Oct-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						Stable / CARE A3 (10-Aug-22)		
3	Term Loan-Long Term	LT	37.70	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Aug-22) 2)CARE BBB-; Stable (10-Aug-22)	1)CARE BB+; Positive (30-Nov-21)	1)CARE BB+; Stable (06-Oct-20)
4	Fund-based - ST-Term loan	ST	10.00	CARE A3+	-	1)CARE A3 (30-Aug-22) 2)CARE A3 (10-Aug-22)	1)CARE A4+ (30-Nov-21)	-
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	39.50	CARE BBB; Stable / CARE A3+				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in