Mafatlal®
MAFATLAL INDUSTRIES LIMITED

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April 01, 2021

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 Acuite Ratings & Research Limited has recently assign the ratings for the Company as follows:

Total Bank Facilities Rated	Rs. 196.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

A copy of the Press Release of Acuite Ratings & Research Limited is attached herewith.

Further the same is available on the website of Acuite Ratings & Research Limited at www.acuite.in and the weblink is as follows:

https://www.acuite.in/documents/ratings/revised/28370-RR-20210331.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

Press Release

Mafatlal Industries Limited

March 31, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 196.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned 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 **'Stable'**.

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
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 household with a vintage track of operations**
MIL is a 116 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 and Mr. Hrishikesh Mafatlal has an experience of more than 35 years and is on 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 integrated from spinning, weaving, yarn dyeing to processing. The product portfolio includes garments for men and women, upholstery items, uniforms for schools, corporate houses, among others.
Acuité believes that with a vast experience of the management coupled with distinguished and diversified product profiles with established brand name of "Mafatlal" the business risk profile is expected to remain comfortable and support the operations over the medium term.

- **Robust network of distribution channels and its plan to foray in retail space**
The business model for textile division is B2B focused and spread across India with wide network of dealers and distributors divided in 5 zones with more than 400 dealers and 35,000 retailers making the product availability all across India. MIL also exports to 18 countries and the exports accounts for 7 percent of the total gross revenues. Customers include both dealers and B2B customers (corporate houses/government agencies) for school uniforms, corporate uniforms, etc. With MIL's foray into health care and sanitary product segment, the company's focus is to largely cater to the institutional segment to establish the brand equity. To drive the growth going forward, MIL wishes to spread its footprint into retail space through online channel. Company has already created brands under "Mafatlal Healthcare" brands like "Coocoo", "UNICHOICE", "MEDIMEF" and "Frolica" are flagship brands.

- **Strategic reforms taken up to turnaround business profitability**
  MIL has been working on two-pronged strategy to improve its cash flows which has remained disrupted due to high costs tempering down the profitability. MIL is planning to (i) expand operating margins by reducing manpower and other costs and (ii) driving volume growth through women-wear range of fabric. The benefits of these strategic initiatives are expected to boost the cash flows over next 2 to 3 years. The company's profitability has been weighed down over the years due to the high employee costs (~8.81 percent of total sales in FY2020, 11.78 percent in FY2019) and loss-making denim operations. The company has closed its denim business at the Navasari, Gujarat. Further, the company, in order to reduce cost, has offered Voluntary Retirement Scheme (VRS) to its employee in textile division. The company is expected to save ~Rs.9 Cr to Rs.10 Cr in their employee costs through this strategy. The company also attempts to shift towards an asset light model of operations and has decided to close majority of spinning & weaving and move towards outsourcing to take advantage of goods quality of raw material at lower cost available in market. Acuité believes with such initiatives, going ahead, the company is likely to improve its cash flows in medium term.

- **Availability of monetizable assets in the form of land and unencumbered shares of NOCIL to cushion any exigency**
  MIL has closed its denim operations based out of Navsari location and currently owns a land parcel of ~65 acres (current value estimated at ~Rs.55 Cr) at its disposal. In addition to land parcels at Navsari, MIL has also around 50 acres of land parcel at Nadiad which is readily monetizable to the company. Management is currently planning on monetizing on the same through an outright sale or leasing arrangements in the next 3 to 4 years. Company is working with property consultant CBRE to find out best possible use of large parcels of land available with the company. This will provide opportunity to unleash the value of land available with the company. Also, the MIL promoters hold 2.52 Cr of shares of NOCIL, out of which 0.52 Cr shares have been pledged to lenders against the borrowings and remaining 2 Cr shares are unencumbered and are worth Rs.420 Cr as on January, 2021. These 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 monetizable land parcels and shareholding of NOCIL Ltd.

- **Refinancing initiatives to reduce debt and interest payout burden**
  MIL has an existing borrowing of Rs.35 Cr at 14 percent interest rate, from an NBFC, repayable as a bullet payment in June, 2021. The management of MIL is planning to replace its high cost debt with low cost debt with an extended repayment tenure. The total interest outgo for MIL currently is ~Rs.32 Cr. on a yearly basis; however, with the refinancing of high cost debt, MIL is likely to save around ~Rs.5 Cr to Rs.6 Cr. on its overall cost of debt profile across the coming years which will improve the cash flows and profitability, at net level, of MIL. Further, the current debt has a bullet payment in June, 2021; however, with refinancing, the outflow will be eased with yearly repayments for a period of 3-5 years. Further, timely refinancing at favourable interest rate and repayment period will remain a key for MIL to maintain its liquidity position and improving its credit profile.

Weaknesses

- **Continued operating and net losses; to remain further impacted in FY2021 due to outbreak of COVID-19**
  MIL has reported year-on-year operating and net losses for the last 3-year period under study ending FY2020. The operating losses were ascertained at Rs.5.55 Cr in FY2020 against Rs.59.81 Cr in FY2019 and Rs.6.16 Cr in FY2018. The major factor behind this is due to closure of the denim operations at the Navsari unit. The company took a conscious effort of closing down the denim operations on account of saturated market demand with an oversupply situation for denim. To curtail the losses in the company, MIL took a strategic decision to scale down the denim operations and consequently decided to close down the denim operations, in a phased manner, which was finally concluded in FY2021. Moreover, the net level losses stood at Rs. 13.71 Cr in FY2020 against Rs.180.07 Cr in FY2019 and Rs.41.78 Cr in FY2018 was due to losses written off as exceptional items pertaining to employee expenditure settlement (VRS) and expenses from closing the operations at Navsari unit. The company has however, prudently and in time taken the onus of turning around the face of profitability by curtailing the employee expenses by offering the employees a VRS scheme and closure the loss-making denim operations which is expected to lay fruition in the medium term.
  Further, the operations of MIL are, however, expected to remain impacted in FY2021 on account of outbreak of covid pandemic and the lockdown resulting in slower momentum in sales growth with subsequent impact on profitability.

- **Moderate capital structure constrained by weak debt protection metrics**
  The financial risk profile of MIL is characterized by moderate capital structure yet declining, healthy leverage ratios through overall remain constrained due to weak debt protection metrics. The company reported tangible networth of Rs.281.2 Cr as on March 31, 2020 against Rs.503.4 Cr as on March 31, 2019. The deterioration in networth profile is on account of accumulated losses eroding the reserves. MIL has moderate appetite for leverage as observed from the level of total debt at Rs.150.49 Cr as on March 31, 2020. The leverage metrics have also undergone variation on account of the reducing networth levels; the same was reported at 0.54 times as on March 31, 2020 against 0.41 times as on March 31, 2019. The company does not have any capital expenditure plans entailed for the near to medium term except for routine maintenance of its plant and machinery.
  Further, due to the operating level losses in MIL the debt protection metrics stood weak with an interest coverage (ICR) and debt service coverage (DSCR) of 1.12 times against 0.60 times in FY2020. This is however expected to improve and witness a turnaround over the medium term on account of initiatives to reduce high employee costs coupled with refinancing initiatives at cheaper rates of interest, to ensure improved profitability at operating and net level.
  Acuité believes the financial risk profile is expected to remain moderate in the near term and start witnessing a phased manner of turnaround with respect to the expected implementation and fruition of initiatives.

- **Moderately working capital intensive operations**
  MIL's working capital operations remained moderately intensive marked by gross current asset days (GCA) of 158 days as on March 31, 2020 against 128 days as on previous year. This is due to stretch in receivable collection caused especially due to last few months in FY2020 due to the outbreak of covid and subsequent lockdown in March 2020. The receivable days stood at 93 days in FY2020 against 70 days in FY2019. MIL majorly holds finished goods inventory and follows an inventory holding policy of standard 30 to 40 days to cater to the demand. The inventory days stood at 38 days in FY2020 against 35 days in FY2019. The inventory and receivable period followed by MIL is standardized according to market dynamics of demand and industry patterns and therefore registered a moderate utilization of its working capital fund-based facilities at 80 percent during the six months ending December, 2020. Acuité believes the working capital management is expected to remain in similar lines, in the medium term, however, witness moderate impact in FY2021 due to outbreak of covid-19.

- **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

- Ability to timely refinance its high debt level while maintaining favorable timelines
- Higher than expected debt availed leading to weighing down of financial risk profile and liquidity
- Ability to timely monetise the assets currently at disposal
- Further to expected disarray in operations and weakening of profitability margins

Liquidity: Adequate

MIL has adequate liquidity witnessed from the adequate cash and bank balances of Rs. 25.2 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.420 Cr as on January, 2021. These shares are held by MIL and can be monetized in case of any exigency. The fund based working capital limits are also utilised at 80 percent as on December 2020 which gives room for cushion in the form of liquidity buffer. The company's repayments are expected to be at Rs.39 Cr in FY2021 out of which loan value of Rs.35 Cr is likely to be refinanced with favorable timelines. Remaining Rs.4 Cr have already been repaid through cash generated in the business during the year. The company also has additional liquidity cushion with the option of selling its non-core assets (land parcels at Navsari unit; current value ~Rs.55 Cr) and utilize the funds to repay the debt obligations and aid business growth. In addition to this, MIL had also availed the Covid-19 moratorium under the Regulatory Package announced by Reserve Bank of India (RBI).

Outlook: Stable

Acuité believes that MIL will maintain a 'Stable' outlook and continue to benefit over the medium term with respect to the extensive experience of management and its long-standing position in the market coupled with the established brand name of 'Mafatlal'. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability while noteworthy improvement in working capital management and overall liquidity. Conversely, the outlook may be revised to 'Negative' in case MIL registers lower-than-expected decline in revenues and profitability, any significant stretch in its working capital management or any unexpected debt-funded capital expenditure weighing down the overall capital structure and leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,005.53	1,023.85
PAT	Rs. Cr.	(13.71)	(180.07)
PAT Margin	(%)	(1.36)	(17.59)
Total Debt/Tangible Net Worth	Times	0.54	0.41
PBDIT/Interest	Times	1.12	(3.77)

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Any Material Covenants
- To maintain DSRA of 3 months to 6 months with identified banks till the tenor of the facility
- To keep at least Rs.70 Cr value of shares held by it in NOCIL free and unencumbered during the entire tenor of facility with identified bank

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of Facility (ies)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE BBB-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Feb, 2014	12.40%	Mar, 2022	5.18	ACUITE BBB-/Stable (Assigned)
Term Loan	Dec, 2014	12.25%	Sep, 2022	6.19	ACUITE BBB-/Stable (Assigned)
Term Loan	Mar, 2016	11.75%	Sep, 2024	12.56	ACUITE BBB-/Stable (Assigned)
Term Loan	June, 2016	10.50%	Dec, 2024	10.03	ACUITE BBB-/Stable (Assigned)
Term Loan	May, 2019	14.00%	May, 2021	35.00	ACUITE BBB-/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	18.04	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
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About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,000 credit 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 Mumbai.