

June 10, 2021

## Mulberry Silks Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Term Loan	6.14	2.70	[ICRA]BBB+(Stable); reaffirmed
Short -term – Fund-based	10.00	10.00	[ICRA]A2; reaffirmed
Short -term – Non-fund Based	11.35	10.10	[ICRA]A2; reaffirmed
Long-term / Short-term - Unallocated	9.71	14.40	[ICRA]BBB+(Stable)/A2; reaffirmed
<b>Total</b>	<b>37.20</b>	<b>37.20</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation reflects the expected steady operational and financial performance of Mulberry Silks Limited (MSL) in the coming quarters, supported by its established presence in the silk fabric export market and comfortable financial profile, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. MSL’s performance was under pressure in FY2021, constrained by the pandemic-induced business disruptions. Additionally, it faced modest revenues and earnings in the preceding fiscals on the back of intense competition and tepid demand conditions in major markets. MSL’s revenues and operating profits declined by around 10% in FY2021. With recovery in demand conditions illustrated by the growing order book position in the recent months and expansion in product portfolio, MSL’s revenues are expected to grow by ~10% each in FY2022 and FY2023. Further, operating margins are likely to stabilise at around 9% in the coming quarters, supported by the shift in product mix towards jacquard fabric from embroidery fabric and cost reduction measures undertaken. The cash profits are also supported by the steady rental income generated by the company. Nevertheless, MSL’s revenues and earnings remain vulnerable to the customer as well as geographical concentration risks and fluctuating raw material prices and exchange rates amid intense competition.

The ratings continue to derive comfort from MSL’s comfortable financial profile, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. Steady earnings in the recent fiscals, albeit at lower levels than the healthy earnings generated till FY2017, and low funding requirements resulted in with low reliance on external debt (despite periodic short-term loans and advances extended to Group companies). The key ratios such as total debt to operating profits and interest coverage are estimated to be around 0.5 times and 9 times, respectively, in FY2021 and are expected to remain comfortable over the medium term.

The Stable outlook reflects ICRA’s expectation that MSL’s operational and financial performance would remain supported by its established presence with a stable customer base, the product diversification measures undertaken and comfortable capitalisation levels.

### Key rating drivers and their description

#### Credit strengths

**Established presence in silk fabrics export business** – MSL is a major supplier of silk fabrics from India and it exports luxurious silk fabrics for furnishings, wall coverings and upholstery mainly to home decorators, trade shops and distributors in United Kingdom (UK) and Europe. The promoters have been involved in the business for more than three decades. The company has been able to forge strong relationships with an established clientele possessing vast experience in fabric editing and wholesale

business. Thus, with a stable customer base, MSL has been able to sustain volumes over the years. However, its performance has been constrained over the recent fiscals because of intense competition and modest demand exacerbated by the pandemic. Nevertheless, with recovery in demand conditions and the company diversifying its product base, its established presence is likely to support steady volume growth in the coming fiscals. It also recorded an improvement in order book position in the recent months.

**Comfortable financial profile** – MSL’s financial profile remains comfortable, characterised by a conservative capital structure with adequate coverage metrics and liquidity position. Relatively stable earnings from operations, supported by rental income and limited funding requirements in the recent past, resulted in low dependence on external debt. Thus, despite the advances extended to Group companies, MSL’s credit metrics and liquidity position remained comfortable with total debt to operating profits and interest coverage ratios of around 0.9 and 11.6 times, respectively, in 10M FY2021.

### Credit challenges

**Moderation in revenues and earnings in recent past; performance likely to improve going forward** – MSL’s revenues continued to decline in FY2021 because of the pandemic-related demand disruptions witnessed during a major part of the fiscal. The same is post the moderation in performance witnessed in the preceding fiscals of FY2019 and FY2020, constrained by increasing competition and modest demand conditions in key markets. Diversification into jacquard silk fabrics, coupled with some improvement in export demand, will likely support medium-term volume growth. However, the profitability levels from the silk business are likely to remain at moderate levels over the next 12 to 18 months till the scale of operations recovers to the pre-Covid levels. Further, the operating profitability remains exposed to volatility in raw material prices and exchange rates as MSL enjoys limited pricing flexibility with large customers amid intense competition.

**High geographical and customer concentration risks and vulnerable to changing demand trends** – The European Union and Great Britain contributed to around ~68% of revenue during 10M FY2021 and ~79% in FY2020. Further, the company is exposed to moderate customer concentration risks with top five clients accounting for ~50% of its revenues in 10M FY2021. These concentration risks render its revenues and profitability vulnerable to the macro-economic cycles of these regions and key customers. The risk is mitigated to an extent by the established relationships enjoyed with its key clientele.

### Liquidity position: Adequate

MSL’s liquidity position remains comfortable, supported by adequate unutilised lines of credit. The free cash and bank balances and the buffer available in working capital limits utilised together stood at around Rs.10 crore as on March 31, 2021 against limited capital expenditure requirements and debt repayment obligations of around Rs.5 crore over the next 12 months. Thus, despite the likely increase in working capital requirements in the coming quarters, the liquidity position is expected to remain comfortable, driven by the growth in earnings from operations and adequate unutilised lines of credit enjoyed.

### Rating sensitivities

**Positive factors** – ICRA could upgrade MSL’s ratings if its scale of operation and earnings register a strong growth on a sustained basis, along with better business diversification, while maintaining its comfortable credit metrics. The key metrics, which could result in an upgrade, include ROCE improving to more than 15% on a sustained basis.

**Negative factors** – Negative pressure on MSL’s ratings could arise if there is continued pressure on revenues and earnings in the coming quarters or upon any sharp elongation of its working capital cycle adversely impacting its credit metrics and liquidity position. Any sizeable cash outflow towards Group companies, which would significantly affect MSL’s liquidity position may also result in a rating downgrade. Specific metrics for a rating downgrade will be interest coverage less than 3.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MSL.

## About the company

MSL finds its origin from a company named Shakshambana Silks Private Limited (SSPL,) which was taken over by the current promoters' family in 1989-90. It exports luxurious silk fabrics for furnishings, wall coverings and upholstery primarily to the niche silk home furnishings segment, wherein the customers generally comprise high-end residential customers, hotel chains and palaces. MSL markets to distributors in United Kingdom (UK) and European countries with exports accounting for ~80% of its revenues. The company has presence across jacquard and embroidery fabric.

## Key financial indicators (audited)

MSL	FY2019	FY2020
Operating Income (Rs. crore)	97.5	90.0
PAT (Rs. crore)	7.9	5.8
OPBDITA/OI (%)	13.2%	8.6%
ROCE (%)	12.8%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2
Total Debt/OPBDITA (times)	0.8	1.2
Interest Coverage (times)	4.5	7.7
DSCR	3.4	4.0

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020		Date & Rating in FY2018	Date & Rating in FY2017	
				Jun 10, 2021	Mar 24, 2020 Mar 11, 2020	May 30, 2019	Apr 05, 2018	Mar 07, 2017	
1 Term Loan	Long-term	2.70	2.70	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	
2 Fund-based Limits	Short term	10.00	--	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
3 Non-fund-based Limits	Short term	10.10	--	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4 Unallocated Limits	Long-term/short term	14.40	--	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Term Loan	Simple
Short -term – Fund Based	Simple
Short -term – Non-Fund Based	Simple
Long Term / Short Term - Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2019	NA	FY2023	2.70	[ICRA]BBB+(Stable)
NA	Fund-based Limits	-	NA	-	10.00	[ICRA]A2
NA	Non-fund Based Limits	-	NA	-	10.10	[ICRA]A2
NA	Unallocated Limits	-	NA	-	14.40	[ICRA]BBB+(Stable)/ [ICRA]A2

*Source: Company*

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

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