October 06, 2023

Mallcom (India) Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Working Capital Facilities	75.00	75.00	[ICRA]A (Stable), reaffirmed
Total	**75.00**	**75.00**	

** Instrument details are provided in Annexure – I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Mallcom (India) Limited (MIL) along with its two wholly-owned subsidiaries, Mallcom VSFT Gloves Private Limited (MVGPL) and Mallcom Safety Private Limited (MSPL), referred to as the company/ MIL, given the close operational, financial and managerial linkages among them.

The rating considers MIL's established track record of operations, long experience of the promoter in the industrial safety product industry, and the favourable demand outlook for the industrial safety products. The company's scale of operations witnessed a steady growth over the past three years, which is likely to continue in the current fiscal as well. Accordingly, the overall profits and cash accruals from the business have improved over the period as the overall profitability of the company remained almost stable. The rating also considers its established as well as moderately diversified customer base, which along with a diverse product mix, strengthen its market position. The rating also favourably factors in MIL's comfortable financial risk profile, characterised by a healthy profitability, conservative capital structure and strong debt protection metrics.

The rating is, however, constrained by the intense competition in the safety product industry, which limit pricing flexibility and keep margins under check. The rating is also impacted by the high working capital intensity of operations, exerting pressure on cash flows. The rating also considers project related risks associated with the ongoing capital expenditure (capex) of setting up the new manufacturing facility in Gujarat related to the commissioning of the same within the budgeted cost and time, stabilising the operations, and achieving desired process parameters and cost efficiencies. Further, the rating continues to factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated to a considerable extent by the partial natural hedge and formal hedging mechanisms adopted by the company. The rating also factors in any adverse change in government regulations, which could potentially impact the competitiveness of its products as well as the business.

The Stable outlook on the long-term rating reflects ICRA's opinion that MIL will continue to benefit from its established track record of operations in the industrial safety products industry and maintain its business position while sustaining its profitability level in the long run.

Key rating drivers and their description

Credit strengths

Favourable demand outlook and established track record of operations in industrial safety products industry – MIL has been involved in the manufacturing, export and distribution of industrial safety products for more than three decades. The products are sold both in the domestic and the export markets. The company's established track record of operations and long experience of the promoter mitigate the operational risk to a large extent. The operating income of the company has grown to around Rs. 403 crore in FY2023 from around Rs. 286 crore in FY2020 on the back of increasing awareness and favourable demand of personal protective equipment. Increasing safety awareness leads to favourable growth prospects for the industrial safety products both in the domestic and international markets. In view of a healthy order book and a likely increase in the export sale of industrial garments from MSPL, the overall top line of MIL, on a consolidated basis, is likely to register a growth of 7-8% in FY2024 compared to the previous fiscal.

Diversified and flexible product mix lead to competitive advantages – The company has a diversified product portfolio comprising leather gloves, cotton and synthetic gloves, nitrile dipped gloves, industrial safety garments, safety shoes, helmet etc., which are used for multiple purposes. The company's diverse range of products provide a cushion against adverse market conditions in any particular segment. Moreover, industrial garments and safety shoes, being high-margin products, accounted for more than 60% of the company's revenue over the past few years, resulting in elevated margins.

Fairly diversified customer base and geographical presence – MIL has a reputed and established client base across industries, which generates repeat orders, reflecting acceptable product quality and low counterparty risk. The top ten customers of the company contributed 30-40% to the total revenue over the past few years, reflecting a diversified customer base. Although the company supplies its products to around 50 countries across six continents, MIL's revenues remained geographically concentrated as over 40% of its total revenue was derived from the European Nations over the past years.

Comfortable financial risk profile, as reflected by healthy profitability, a conservative capital structure and strong debt protection metrics – The operating profit margin (OPM) of MIL, on a consolidated level, remained almost stable and in the range of 12-13% over the past few years. ICRA notes that the overall profits and cash accruals from the business witnessed a steady growth over the last few years, primarily driven by a steady increase in the scale of operations. The RoCE of the company also stood at a comfortable level of around 21% in FY2023. In view of increasing sale of high-margin products, the OPM of the company is estimated to remain at around 13-14% over the next few years. The net margin is estimated to remain in the range of 8-9% in the coming years. The capital structure of the company has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. Total outside liabilities relative to the tangible net worth stood at 0.7 times as on March 31, 2023, which are likely to remain low, going forward as well, in the absence of any debt-funded capital expenditure programme. The coverage indicators also stood at a healthy level because of low gearing and healthy profits as well as cash accruals from its business. ICRA does not foresee any major deterioration in the capital structure and coverage indicators of the company, going forward.

Credit challenges

Stiff competition in safety wear industry exerts pressure on margins – Intense competition from organised and unorganised players in the safety wear market on account of the low value-accretive nature of products limit its pricing flexibility. This keeps the margins under check despite export incentives received from the Government of India (GoI).

Exposed to foreign exchange rate fluctuation and regulatory risks – MIL generates a significant portion (~64% in FY2023) of its revenue from export sales, which exposes it to the foreign exchange rate fluctuation risk. However, the foreign currency exposure is largely hedged by the forward cover. In addition, import of some raw materials provides a partial natural hedge. This mitigates the foreign exchange rate fluctuation risk to a large extent. Moreover, as an exporter, MIL enjoys export incentives and interest subvention under various schemes run by the GoI. Accordingly, its revenues and profitability remain susceptible to the regulatory risks such as changes in duty structure, rate of export incentives etc., which could potentially impact the competitiveness of its products as well as business.

Project risk associated with setting up a new manufacturing facility in Gujarat – MIL has entered into a memorandum of understanding (MoU) with the Government of Gujarat to set up a unit (PROTECH) for manufacturing of hand/ head protective equipment namely, synthetic (PU/ NBR) gloves, helmet and various injection moulded safety products. The estimated project cost would be around Rs. 108 crore, proposed to be funded entirely through internal accruals. The entire project will be implemented in a phased manner over five years. The company obtained the plot of land in FY2023, on a leasehold basis, from Gujarat Industrial Development Corporation (GIDC) against a consideration of around Rs. 23 crore. In phase – I of the project, total capital outlay would be around Rs. 45 crore (including the cost of land). The unit is scheduled to become operational in Q1 FY2025. However, in the interim period, the company would face project-related risks, including commissioning of the project within the budgeted cost and time, stabilising the operations, and achieving desired process parameters and cost efficiencies.

Significant receivables and stocking requirement lead to high working capital intensity of operations – Significant receivables and stocking requirements keep the company's working capital intensity of operations at a high level, as reflected by the net working capital relative to the operating income of ~29% (~35% in FY2022) in FY2023, which in turn exert pressure on its cash flows. MIL's working capital intensity of operations is likely to remain at a high level, going forward. However, undrawn line of credit and free cash/bank balance provide some comfort to its liquidity position.

Environmental and social risks

The environmental and social risks pertaining to manufacturing of the products remain the most significant sustainability risk for industrial safety products companies. From raw material sourcing to production process, water is a critical resource for making industrial safety products. Initiatives such as zero discharge of hazardous chemicals continue to drive innovations in product design and sustainable sourcing.

Environmental risks indirectly affect the industry, primarily through the impact of post-consumer waste. While these risks have not resulted in material implications so far, policy interventions towards tightening the standards on waste management, including the packaging waste could have cost implications for MIL. As per MIL's annual report for FY2023, the company embraces sustainable manufacturing practices, complies with environmental regulations, and prioritises supply chain sustainability. It emphasises product design, transparency and collaboration with stakeholders to enhance environmental performance and thus, is expected to mitigate risks to an extent.

Being a labour-intensive segment, MIL remains exposed to the risks of disruptions due to inability to properly manage human capital in terms of their productivity and overall well-being. Further, any significant increase in wage rate may adversely impact the cost structure of industrial safety products, adversely impacting the margins. Risks of protests/ conflicts with local communities and/ or shortage of skilled workers could also affect operations/ growth plan and remain key concerns.

Liquidity position: Strong

The company generated positive fund flow from operations in FY2023, like previous years. The company would continue to generate positive fund flow from operations in FY2024 as well. The average fund-based and non-fund based working capital utilisation remained at a moderate level of around 64% during the last 15 months, leaving sufficient buffer for future working capital requirement. Also, the company had unencumbered cash/bank balance of around Rs. 29 crore as on March 31, 2023. ICRA notes that a part of its cash flows from operations would be utilised for funding the ongoing capex programme for setting up a new unit, which is scheduled to become operational in Q1 FY2025. Nevertheless, in view of adequate cash flow from operations, unutilised working capital limits, surplus cash/ bank balance and the absence of any major long-term debt service obligations, ICRA expects MIL's liquidity position to remain strong, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade MIL's rating if the company is able to increase its scale of operations substantially, while maintaining profitability and comfortable liquidity position on a sustained basis.

Negative factors – Pressure on MIL's rating may arise if there is a significant decline in revenues or margins. Increase in working capital intensity, affecting the liquidity position might also exert pressure on the rating. Specific credit metric that may trigger a rating downgrade includes RoCE of less than 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/ Group support	Not applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mallcom (India) Limited. As on March 31, 2023, the company had two wholly-owned subsidiaries, which are enlisted in Annexure – II.

About the company

Incorporated in 1983 and promoted by Mr. Ajay Mall, Mallcom (India) Limited (MIL) manufactures industrial safety products. MIL sells its products both in domestic and international markets. The product profile includes a wide range of personal protective equipment from head to toe like garments, leather and synthetic gloves, safety shoes, helmets etc. The company has a number of manufacturing facilities in West Bengal and one in Haridwar, Uttarakhand. At present, the company has two wholly-owned subsidiaries namely, Mallcom VSFT Gloves Private Limited (MVGPL) and Mallcom Safety Private Limited (MSPL). MVGPL is involved in manufacturing of nitrile dipped gloves, primarily for MIL. MSPL commenced its operations in FY2022 and manufactures industrial garments, which are exclusively exported to the international market.

Key financial indicators

MIL	Standalone		Consolidated			
	FY2022 (Audited)	FY2023 (Audited)	FY2022 (Audited)	FY2023 (Audited)	Q1 FY2023 (Unaudited)	Q1 FY2024 (Unaudited)
Operating income	360.3	398.6	353.8	403.3	87.4	94.5
PAT	30.9	36.7	31.7	37.7	6.9	8.5
OPBDIT/OI	11.8%	12.3%	13.1%	12.7%	13.6%	15.0%
PAT/OI	8.6%	9.2%	9.0%	9.3%	7.9%	9.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.6	0.7	-	-
Total debt/OPBDIT (times)	1.1	1.7	1.2	1.8	-	-
Interest coverage (times)	23.1	21.6	22.6	20.9	28.8	12.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Mallcom (India) Limited, ICRA Research

Status of non-cooperation with previous CRA

CRA	Status of non- cooperation	Date of press release
India Ratings	IND BB/A4+ ISSUER NOT COOPERATING	July 24, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Oct 6, 2023	Feb 16, 2023	Jan 17, 2023	Jul 22, 2022	Apr 7, 2021	Jun 29, 2020
1	**Working Capital Facilities**	Long Term	75.00	77.44	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	**Unallocated Limits**	Long Term	-	NA	-	-	-	-	[ICRA]A- (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Pre-shipment/ Post-shipment working capital facilities 1**	-	-	-	30.00	[ICRA]A (Stable)
-	**Pre-shipment/ Post-shipment working capital facilities 2**				20.00	[ICRA]A (Stable)
-	**Pre-shipment/ Post-shipment working capital facilities 3**	-	-	-	25.00	[ICRA]A (Stable)

Source: Mallcom (India) Limited

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	MIL's Ownership	Consolidation Approach
Mallcom VSFT Gloves Private Limited	100%	Full Consolidation
Mallcom Safety Private Limited	100%	Full Consolidation

Source: Annual report of 2022-23, Mallcom (India) Limited

Note: ICRA has taken a consolidated view of the parent (MIL) and its subsidiaries while assigning the rating

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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