October 17, 2024

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 subsidiaries, referred to as the company/ MIL, given the close operational, financial and managerial linkages among them.

The reaffirmation of 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 on the back of increasing awareness of safety at work. The company's scale of operations witnessed a steady growth over the past four years. However, in FY2024, the growth stood at only 3% on a YoY basis, on the back of production loss due to shifting of its existing facilities to the new unit. However, ICRA expects the top line to grow by 12-14% in FY2025, driven by a likely increase in the sale of industrial garments as well as safety shoes. A similar growth trajectory is expected to be maintained in FY2026 as well, driven by additional revenue likely to be generated from its proposed new facilities (PROTECH). ICRA notes that the overall profits and cash accruals from the business continued to remain at healthy levels over the last few years. The rating also considers its established and a diversified client base, a wide geographical presence, 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 conservative capital structure and strong debt coverage metrics.

The rating is, however, constrained by the intense competition in the safety product industry and low bargaining power with large clients, 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 its cash flows. 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. ICRA notes that the company has undertaken a large project, which is likely to lead to a growth in revenues and profits, post successful commissioning of the facilities. However, in the interim period, the company would face project related risks, including the risk of plant stabilisation and achievement of desired process parameters. 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. 416 crore in FY2024 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 the international markets.

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 various purposes. The company's diverse range of products provides 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 company is primarily a B2B player, whereas the top ten customers contributed 30-40% to the total revenue over the past few years, reflecting a diversified customer base. Around 60% of the company's revenue was derived from supply of its products to more than 40 countries across six continents, reflecting a fairly expanded geographical presence. Nevertheless, around 40% of its total revenue was derived from the European Nations over the past years.

Comfortable financial risk profile, as reflected by a conservative capital structure and strong debt coverage metrics – The operating profit margin (OPM) of MIL, on a consolidated level, remained almost stable and in the range of 13-14% over the past few years and is expected to remain at a similar level, going forward. The RoCE of the company also stood at a comfortable level of around 18% in FY2024. The capital structure of the company, on a consolidated level, has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. Its total outside liabilities relative to the tangible net worth stood at 0.7 times as on March 31, 2024, which is 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

Moderate scale of current operations, however, top line witnessed a steady growth over the past few years – The turnover of the company, at the consolidated level, witnessed a steady growth over the past four years. The operating income of MIL has grown to around Rs. 416 crore in FY2024 from around Rs. 286 crore in FY2020 on the back of increasing awareness and favourable demand of personal protective equipment. The operating income (consolidated level) remained almost similar to the standalone results as most of the transactions of the subsidiaries are with the holding company only. Historically, the company's scale of operations had remained at a moderate level. MIL reported a top line of Rs. 102.4 crore, on a consolidated level, in Q1 FY2025 against Rs. 94.5 crore in Q1 FY2024. In view of healthy order book and a likely increase in the sale of industrial garments as well as safety shoes, the top line of MIL (consolidated) is likely to register a growth of 12-14% in FY2025 on a YoY basis.

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 limits its pricing flexibility. This keeps the margins under check despite export incentives received from the Government of India (GoI).

Exposed to regulatory risk – MIL, on a consolidated level, generates a significant portion (~59% in FY2024) of its revenue from export sales. 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 proposed ongoing capital expenditure programme – 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. 110 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 a plot of land in FY2023, on a leasehold basis, from Gujarat Industrial Development Corporation (GIDC) against a consideration of around Rs. 23 crore. As per the revised programme, in phase – I of the project, total capital outlay would be around Rs. 86 crore (including the cost of land) against Rs. 45 crore estimated earlier. The unit is now scheduled to become operational in November 2024 (previously the project was expected to be commissioned in Q1 FY2025). MIL is also in the process of increasing its production capacity at Ghatakpukur unit in West Bengal. This would require a capital investment of around Rs. 20 crore, proposed to be funded entirely through internal accruals. 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 39% (29% in FY2023) in FY2024, which in turn exert pressure on its cash flows. Despite some likely moderation, MIL's working capital intensity of operations is likely to remain at an elevated level, going forward. However, undrawn line of credit and free cash/bank balance provide some comfort to its liquidity position.

Environmental and social risks

Environmental considerations – 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 FY2024, 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.

Social considerations – 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 plans and remain key concerns.

Liquidity position: Adequate

The company generated negative cash flow from operations in FY2024 primarily due to a steep rise in the working capital intensity of operations. Despite a likely increase in the scale of operations, the company is expected to generate positive cash flow from operations in FY2025, supported by a marginal decline in the working capital intensity of operations. The average fund-based and non-fund based working capital utilisation stood at around 74% during the last 15 months ended in August 2024, leaving adequate room for future working capital requirement. The company has nominal long-term debt repayment obligation in the current fiscal. MIL, on a consolidated basis, is expected to generate cash accruals of more than Rs. 44 crore in FY2025. Also, the company had unencumbered cash/bank balance and liquid investments of around Rs. 30 crore as on March 31, 2024. ICRA notes that a major portion of its cash flows from operations along with surplus cash/ bank balance and liquid investments would be utilised to fund the ongoing capex (around Rs. 60 crore is likely to be spent in FY2025). Nevertheless, in view of adequate cash flow from operations, unutilised working capital limits, surplus cash/ bank balance and the absence of major long-term debt service obligations, ICRA expects MIL's liquidity position to remain adequate, 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. An 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, 2024, 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 manufactures 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 (audited)

MIL	Standalone		Consolidated			
	FY2023	FY2024	FY2023	FY2024	Q1 FY2024*	Q1 FY2025*
Operating income	398.6	403.1	403.3	416.5	94.5	102.4
PAT	36.9	36.1	37.7	36.9	8.5	8.5
OPBDIT/OI	13.8%	13.5%	14.5%	13.9%	15.0%	14.0%
PAT/OI	9.3%	8.9%	9.3%	8.9%	9.0%	8.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.6	0.7	0.7	-	-
Total debt/OPBDIT (times)	1.5	1.7	1.6	1.7	-	-
Interest coverage (times)	24.2	14.0	23.8	13.6	12.6	10.3

*Source: Mallcom (India) Limited, ICRA Research; * Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

CRA	Status of non- cooperation	Date of press release
India Ratings	IND A4+ ISSUER NOT COOPERATING	July 24, 2024

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
				Oct 17, 2024	Oct 6, 2023	Feb 16, 2023	Jan 17, 2023	Jul 22, 2022	Apr 7, 2021
1	**Working Capital Facilities**	Long Term	75.00	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	**Unallocated Limits**	Long Term	-	-	-	-	-	-	[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
NA	Working capital facilities 1	-	-	-	30.00	[ICRA]A (Stable)
NA	Working capital facilities 2	-	-	-	15.00	[ICRA]A (Stable)
NA	Working capital facilities 3	-	-	-	30.00	[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 2023-24, 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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