

Matrix Clothing Private Limited

January 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	2.87	4.99	[ICRA]BBB- (Stable); Revised from [ICRA]BBB (Stable)
Short-term Fund-based Limits	83.53	80.50	[ICRA]A3; Revised from [ICRA]A3+
Short-term Non-fund Based Limits	10.00	-	-
Unallocated Limits	0.86	11.77	[ICRA]BBB- (Stable); Revised from [ICRA]BBB (Stable)
Total	97.26	97.26	

Rating action

ICRA has revised the long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BBB (pronounced ICRA triple B) and the short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A3+ (pronounced ICRA A three plus) outstanding on the Rs. 97.26-crore¹ bank facilities of Matrix Clothing Private Limited (MCPL or the company)². The outlook on the long-term rating is Stable.

Rationale

The revision in ratings takes into consideration sustained deterioration in the company's financial performance, over the past couple of years, on account of certain customer-specific challenges, adverse currency movements, hikes in the minimum wages in Haryana and the overall subdued demand from global markets. In addition to these factors, MCPL's consolidated performance has weakened post the acquisition of Indo Jordan Clothing (IJC) during FY2017, which is expected to seek financial support from MCPL over the near-term. ICRA believes that MCPL's financial performance is expected to remain weak in FY2018 owing to unfavourable currency trends witnessed during the first half of the fiscal and transitory impact of the downward revision in duty drawback rates post GST-implementation. Moreover, delays in receiving incentives from the Government has elongated the working-capital cycle and put pressure on the company's liquidity profile.

Nevertheless, the company's investment grade rating continues to be supported by the significant experience of its promoters, with a track record ranging over 35 years in the garment-exports business, its strong customer profile comprising of reputed brands and healthy scale up in its leather exports business, which is managed by its wholly-owned subsidiary, Tangerine Design Private Limited (TDPL, rated [ICRA] A3 (SO) based on the corporate guarantee of MCPL).

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

MCPL acquired 100% stake in IBG Jordan, a company which has presence in the manufacturing of polyester-based bottom-wear for women, and rechristened the entity to Indo Jordan Clothing during August 2016. The acquisition offers benefits in the form of increased competitiveness for exports to USA³ and operational synergies in the form of product portfolio and customer base expansion. Currently, the acquired entity is incurring losses owing to low off-take from its key customer and is expected to be financially supported by MCPL over the near to medium term. MCPL is expected to meet the funding requirements from liquidation of its existing non-core assets, which is likely to have an impact on the liquidity profile and credit metrics of the company over the near term.

Although MCPL benefits from a strong customer base of reputed international players and renowned global brands, its performance, over the past few years, has been impacted on account of company-specific challenges faced by some of its key customers including bankruptcy and change in ownership. While the company has been emerging from this, supported by new customer addition and business expansion initiatives, it has faced further challenges on account of external factors including adverse currency movements and revisions in export incentive structure by the Government during the current year which added to uncertainties.

Over the past year and a half, the Indian rupee has strengthened with respect to the US\$ and GBP, which posed challenges for Indian exporters in the global market. Additionally, there has been a downward revision in the duty drawback rates across several product categories from October 2017 onwards. Although additional incentives offered subsequently under the Merchandise Exports from India Scheme (MEIS) as well as re-introduction of Refund of State Levies scheme is expected to offset the impact partially, there is likely to be some transitory impact on profitability and competitiveness of textile exporters.

Going forward, ICRA would monitor the company's ability to revive its profitability margins in spite of customer-specific and industry-specific challenges faced. ICRA would also monitor the performance of the acquired entity in Jordan and the quantum of loss funding required from MCPL. Hence, these would remain key rating sensitivities.

Outlook: Stable

ICRA believes MCPL's profitability during the current fiscal is likely to remain under pressure, in light of the revision in export incentives provided by the Government and strengthening of INR with respect to US\$ and GBP over the first half of the fiscal. Additionally, ICRA expects loss-funding towards IJC to be in the tune of Rs. 10-12 crore. The outlook may be revised to 'Positive' in case of significant improvement in the operating performance of MCPL and faster than expected turn around in IJC, and funding support to MCPL in the form of adequate equity infusion by the promoters. The outlook may be revised to 'Negative' in event of larger than expected cash outflow to IJC for loss-funding the entity, or larger than expected working capital blockage for the company.

Key rating drivers

Credit strengths

Extensive experience of the promoters and the management in the textile manufacturing and export industry –MCPL has been operating in the Indian textile manufacturing industry since 1980 and the management and promoters of the company are veterans in the industry, with long-standing experience of more than 35 years.

³ Jordan benefits from perpetual duty-free status for exports to the United States

Strong customer base characterised by renowned international players and reputed brands – MCPL exports apparel for reputed global brands like Debenhams, Ralph Lauren, Banana Republic and Timberland, and has well-established relationships with these customers, which helps the company in winning repeat orders from these brands. Furthermore, with these brands being well-accepted in their respective markets and product segments, the off-take by the companies has remained strong, supporting the revenue growth prospects and visibility for MCPL.

Revenue growth aided by MCPL's efforts to expand customer portfolio and add new brands – Despite few customer-specific challenges faced by the company, MCPL has retained its revenues at steady levels over the past three fiscals, supported by efforts in expanding its business with existing as well as new customers. This customer base expansion and new brand addition initiatives of the company are also expected to lead the revenue growth for the company going forward.

Inorganic investments support scale up along with customer base expansion and product diversification – Over the recent years, MCPL made inorganic investments in TDPL, an exporter of leather accessories from India, and Indo Jordan Clothing, a Jordan-based exporter of polyester garments. In addition to the revenue growth this has provided, the company has also got access to the established customer base of these companies, and aided in product diversification.

Improvement in performance of wholly owned subsidiary, TDPL lends support to the overall consolidated financial risk profile – During FY2014, MCPL ventured into the leather accessories segment through its wholly-owned subsidiary, TDPL. Over the past three fiscals, TDPL has scaled up its operations healthily and reported steady profitability indicators, thereby offering support to the consolidated financial risk profile of MCPL.

Credit challenges

Deterioration in operating performance in previous and current fiscals – MCPL has reported weak operating performance over FY2017 and the current fiscal, impacted by company-specific challenges like bad-debt write-offs coupled with industry-specific challenges, attributable to adverse currency movements, pricing pressures from other low cost manufacturing countries and revision in incentives provided by the Government.

Weak performance of recently acquired entity, IJC, which would require funding support from MCPL – MCPL had acquired a Jordan-based polyester garment manufacturer, Indo-Jordan Clothing, during August 2016. Although the acquired entity currently faces challenges on account of weak off-take from its key customer, expansion of its customer base is expected to offset this going forward. In the interim, IJC would require financial support from MCPL till it turns profitable.

Pricing power limited by intense competition in the industry– MCPL faces competition, not only from other textile exporters from India, but also from other low-cost garment exporting countries like Vietnam and Bangladesh, which limits its ability to improve its prices and margins.

Exposed to foreign exchange rate fluctuations owing to export-driven revenue profile - With a primarily export-driven revenue profile, MCPL's revenues are susceptible to foreign exchange rate fluctuations, though mitigated to some extent by partial hedging of its receivables. Over the past two fiscals, MCPL's competitiveness, revenue growth and profitability have come under pressure due to adverse currency movements.

Susceptible to seasonality and geographical concentration risks – By virtue of more than 90% of MCPL's revenues being derived from markets in the northern hemisphere like North America and Europe, the revenues of the company remain exposed to geographical concentration risks and seasonality in sales

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of MCPL along with its wholly-owned subsidiaries – TDPL and IJC – since MCPL has guaranteed the entire debt of both the entities, and also have strong operational synergies with them. For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Indian Textile Industry - Apparels](#)

About the company:

Matrix Clothing Private Limited (MCPL), incorporated in 1977, is involved in the manufacture of apparels for the international markets. MCPL’s current product portfolio consists of knitwear and woven apparel and the company has dedicated divisions for each of the following product lines - men’s knitwear, men’s woven wear and women’s apparel. While the men’s division includes golf-wear, performance wear, rugbies, sweats, hoodies, jackets and boxer shorts, the women’s division has embroidered, sequins, prints, casuals and lounge-wear. MCPL manufactures all its products at its facilities located in Gurgaon.

Tangerine Designs Private Limited, a wholly owned subsidiary of MCPL, commenced operations in October, 2013, and is involved in the manufacturing and export of leather accessories comprising belts and wallets for men and footwear and bags for women. The company operates out of a leased manufacturing unit in Manesar and reported operating revenues of Rs. 205 crore and Profit after Tax (PAT) of Rs. 7.1 crore in FY2017. The bank facilities being availed by Tangerine Designs Private Limited are backed by a corporate guarantee from MCPL. During FY2017, MCPL also acquired an entity IBG, Jordan, which was rechristened as Indo Jordan Clothing (IJC). The acquired entity is primarily involved in manufacturing polyester-based bottom-wear mainly for women. MCPL is also providing corporate guarantee for the working-capital debt on the books of IJC which has been availed from Citibank Jordan.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	284.9	325.9
PAT (Rs. crore)	8.6	10.0
OPBDIT/ OI (%)	6.5%	4.7%
RoCE (%)	10.7%	9.9%
Total Debt/ TNW (times)	1.3	1.2
Total Debt/ OPBDIT (times)	4.8	6.2
Interest Coverage (times)	5.0	3.5
NWC/ OI (%)	35.9%	29.9%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating January 2018	Date & Rating in FY2017 December 2016	Date & Rating in FY2016 January 2016	Date & Rating in FY2016 December 2014
1 Term Loan	Long Term	4.99	2.44	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Short-term Fund-based Limits	Short Term	80.50	NA	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
3 Short-term Non-fund Based Limits	Short Term	-	-	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4 Unallocated	Long Term	11.77	NA	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)		

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISI No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount	
					Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2014	11.1%	FY2019	4.999	[ICRA]BBB-(Stable)
NA	Short-term Fund-based Limits	NA	NA	NA	80.50	[ICRA]A3
NA	Short-term Non-fund Based Limits	NA	NA	NA	-	-
NA	Unallocated	NA	NA	NA	11.77	[ICRA]BBB-(Stable)

Source: Matrix Clothing Private Limited

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