November 10, 2020 Revised

Matrix Clothing Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	9.92	6.33	[ICRA]BBB- (Stable); reaffirmed
Fund-based – Working Capital	85.50	96.80	[ICRA]A3; reaffirmed
Unallocated Limits	14.58	-	-
Total	**110.00**	**103.13**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation takes into account the extensive experience of Matrix Clothing Private Limited's (MCPL) promoters in the garment export business, the company's strong association with leading global clothing brands and integrated operations across the textile value chain. The ratings also factor in the company's growing presence in women's garment business and its expanding customer base, which has enabled healthy growth in operating income over the years. The ratings continue to draw comfort from the operational synergies accrued in terms of better market accessibility and high product diversification by virtue of the Group's presence in leather accessories and synthetic garment exports in the US and European markets.

The ratings, however, continue to be constrained by subdued near-term outlook in the apparel export due to extended impact of Covid-19 pandemic globally, which in turn would affect the scale of MCPL in FY2021. The ratings also remain constrained by the sizable advances extended by MCPL to its Group entities and the recovery of advances remains critical for the financial flexibility of the company. The ratings also take into account MCPL's exposure to high geographical-concentration risk with over 95% of the sales derived from the US and European countries. Further, the company's revenues and profitability remain susceptible to economic cyclicality in the key markets and foreign exchange rate fluctuations, though the same is mitigated to some extent by partial hedging of its receivables. ICRA also notes the limited pricing power of the company due to intense competition from other textile exporters from India as well as from other low-cost garment exporting countries like Vietnam and Bangladesh and exposure of profitability to change in Government policies in relation to export incentive structure. The ratings are further constrained by MCPL's moderate to high working capital intensity due to the high inventory holding because of its product profile. This in turn could impact the liquidity. ICRA also notes MCPL's contingent liabilities in the form of corporate guarantees issued in favour of its Group entities for their bank lines, which might have a material impact on its financial flexibility in case of any invocation in future.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's opinion than MCPL will continue to benefit from the extensive experience of the promoters and the established relationships with its customers, which will aid in the company's revenue growth going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and management in textile industry – MCPL has been operational in the textile manufacturing industry since 1977. The management and the promoters of the company are veterans in the industry with more than four decades of experience.

Strong customer base characterised by renowned international players and reputed brands – MCPL exports apparel to reputed global brands like Superdry, Ralph Lauren, Banana Republic, Nautica, etc. 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 offtake by the companies has remained strong, supporting MCPL's revenue growth prospects and revenue visibility.

Inorganic investments support scale up of operations along with customer base expansion and product diversification – In the recent years, MCPL made inorganic investments in Tangerine Designs Private Limited (TDPL; an exporter of leather accessories from India) and Indo Jordan Clothing (IJC; a Jordan-based exporter of polyester garments). In addition to revenue growth owing to these initiatives, the company has gained access to the established customer base of these companies. This also helped in product diversification. Over the past three fiscals, TDPL has scaled up its operations at a healthy pace and reported steady profitability indicators. IJC achieved breakeven in FY2019, after two years of reporting losses, thereby offering support to the consolidated financial risk profile of MCPL.

Credit challenges

Significant advances to Group entities limits MCPL's financial flexibility – The company acquired a Jordan-based polyester garment manufacturer, IJC, in FY2017 to improve its competitiveness in supplies to the US (on account of Jordan's perpetual duty-free status for exports to the US). However, the performance of the entity remained weak with heavy losses in FY2017 and FY2018, thereby requiring funding support from MCPL, though IJC turned profitable in FY2019. MCPL has further planned to invest in MHPL to fund its capex for setting up manufacturing plant in Jharkhand to avail Government subsidies offered to textile industry and benefit from the lower labour cost there. However, with no fixed repayment schedule, recovery of the same remains critical for the financial flexibility of MCPL. Further, the company has extended corporate guarantees to banks on behalf of TDPL and IJC for the working capital facilities. Invocation of the same can adversely impact the liquidity position of the company.

Subdued near-term outlook due to extended impact of Covid-19 pandemic – Due to the Covid-19 pandemic, the export demand for MCPL has been widely affected, limiting the performance of the company in late FY2020 and the initial months of FY2021, post which recovery could be seen. Nevertheless, due to this, a decline in its scale is expected in FY2021, post which recovery could be expected on a YoY basis. While the OI had shown a healthy growth of 27% and 30% in FY2018 and FY2019, respectively, the growth had remained limited at 3% in FY2020 (on a consolidated basis).

Pricing power limited by intense competition in industry; business susceptible to seasonality and geographical-concentration risks – 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 prices and margins. Moreover, 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. MCPL's revenues remain susceptible to economic cyclicality in these markets and their impact on consumer spending.

Exposed to foreign exchange rate fluctuations owing to export-driven revenue profile – With a primarily export-driven revenue profile, MCPL's revenues and profitability are susceptible to foreign exchange rate fluctuations, though mitigated to some extent by partial hedging of its receivables.

High working capital intensity resulting from high inventory levels which impacts liquidity – MCPL's working capital intensity has remained high (between 30% and 35%) over the years, an attribute that is an industry characteristic. The company offers a credit period of ~60 days to its customers. It maintains an inventory in the form of cotton yarn and fabric of around three months at any given time to ensure timely completion of orders from established customers. This in turn could impact the company's liquidity if there is further stretch in the working capital intensity.

Liquidity Position: Adequate

The company's liquidity profile remains **adequate**, characterised by healthy cash and liquid investments of Rs. 10.7 crore (standalone) and ~Rs. 31 crore (consolidated; estimated) as on March 31, 2020. The working capital utilisation for MCPL remained moderate to high and averaged at ~77% for the 12-month period ending in September 2020; thus some was buffer available in the limits. In addition, there exists limited debt repayment obligations in the near to medium term.

Rating sensitivities

Positive triggers - The ratings may be upgraded if MCPL records a healthy growth in revenues and earnings in the coming quarters on the back of a sustained recovery in demand, improving its credit metrics. Key ratios, which may trigger an upgrade, include interest coverage greater than 3.5 times on sustained basis. While the ratings consider the consolidated financials of MCPL, improvement in the performance of its subsidiary—IJC—would also be a key rang sensitivity.

Negative triggers - Pressure on MCPL's ratings may emerge if there is a sustained pressure on revenues and earnings in the coming quarters, or if there is an elongation in its working capital cycle, which would adversely impact its credit metrics and liquidity position. Any material support to IJC increasing the debt of the company would also be considered a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textile Industry - Apparels
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on the consolidated financial statements of the issuer

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. 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 apparel, 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.

TDPL ([ICRA]BBB- (Stable)/[ICRA]A3), a wholly-owned subsidiary of MCPL, commenced operations in October 2013, and is involved in manufacturing and exporting 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 (Haryana) and reported operating revenues of Rs. 317.98 crore and profit after tax (PAT) of Rs. 12.97 crore in FY2019. The bank facilities being availed by TDPL are backed by a corporate guarantee from MCPL. In FY2017, MCPL acquired an entity IBG, Jordan, which was rechristened as IJC. The acquired entity is primarily involved in manufacturing polyester-based bottom wear, mainly for women. MCPL has also provided corporate guarantee for the working capital debt on the books of IJC, which has been availed from Citibank Jordan.

Key financial indicators

	FY2019 Audited	FY2020 Est. Provisional
Operating Income (Rs. crore)	850.6	874.5
PAT (Rs. crore)	24.64	22.69
OPBDIT/OI (%)	6.7%	4.5%
RoCE (%)	16.3%	14.5%
Total Debt/TNW (times)	1.7	1.6
Total Debt/OPBDIT (times)	3.4	5.4
Interest coverage (times)	3.7	2.4

Source: Matrix Clothing Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					10-Nov-20	1-Jul-19	4-Jun-19	-	2-Jan-18
1	Term Loan	Long Term	6.33	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	[ICRA]BBB- (Stable)
2	Fund based- Working Capital (PC/FDB)	Short Term	96.8	-	[ICRA]A3	[ICRA]A3	[ICRA]A3	-	[ICRA]A3
3	Unallocated	Long Term/ Short Term	-	-	-	[ICRA]BBB- (Stable)/A3	-	-	-
4	Unallocated	Long Term	-	-	-	-	[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 click here

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	FY2014	-	FY2025	6.33	[ICRA]BBB- (Stable)
NA	Working Capital-PC/FDB	NA	NA	NA	96.8	[ICRA]A3

Source: Matrix Clothing Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Matrix Clothing Private Limited	Holding Company	Full Consolidation
Tangerine Design Private Limited	100.00%	Full Consolidation
Matrix Clothing Private Limited Jordan LLC	100.00%	Full Consolidation
Matrix Horizons Pvt Ltd	100.00%	Full Consolidation

Source: Matrix Clothing Private Limited

Corrigendum

Document dated November 10, 2020 has been corrected with revision as detailed below –
Section related to KFI table on page 4 has been revised: PAT figures have been Updated.

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About ICRA Limited:

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