

February 17, 2022

Matrix Clothing Private Limited: Ratings upgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	6.33	18.90	[ICRA]BBB(Stable) upgraded from [ICRA]BBB-(Stable)
Fund-based Working Capital	96.80	106.80	[ICRA]A3+ upgraded from [ICRA]A3
Total	103.13	125.70	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Matrix Clothing Private Limited (MCPL) and Tangerine Design Pvt Ltd (TDPL) commonly referred to as the Group as these companies share operational and financial synergies on account of common promoters, management and customers.

The rating action factors in the expected healthy growth in the Group's revenues in FY2022 on the back of considerable export demand as well as addition of new customers. The operating margins are likely to remain comfortable at ~7-8% in FY2022, thereby resulting in healthy debt protection metrics for the Group. In FY2021, the Group's operating margins improved to 14.65% from 5.69% on account of PPE garments sales, which command better margins. This led to generation of healthy cash accruals and significant improvement in debt coverage indicators. Moreover, the Group has already reported revenues of close to Rs. 720-730 crore till January 2022 and expects to achieve more than Rs. 900 crore by the end of the current fiscal. The same, along with comfortable margins, will result in healthy cash accruals in FY2022. Going forward, the revenue growth and margins are expected to remain comfortable driven by higher export demand. The ratings consider the extensive experience of its promoters in the garment export business, the Group's strong association with leading global clothing brands and integrated operations across the textile value chain. The ratings note the company's growing presence in all segments and its expanding customer base, which has enabled healthy increase in operating income (OI) 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 also take support from the incentives provided by the Government through various schemes to promote the exports.

The ratings, however, continue to be constrained by the Group's high working capital intensity due to increase in inventory holding and high receivable cycle because of its product profile. This, in turn, has resulted in high utilisation of working capital limits in the recent past, although there have been timely enhancements in the limits. Moreover, the ratings note the Group's exposure to high geographical-concentration risk with majority 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 Group 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 the export incentive structure.

The Stable outlook on [ICRA]BBB rating reflects ICRA's opinion that the Group 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

Healthy improvement in performance in FY2021; trend likely to continue in current fiscal – The Group reported healthy operational performance in FY2021, driven by improved margins in the garments division and one-time healthy profits from PPE sales. The momentum is expected to continue in the current fiscal as well. The Group has already achieved revenues close to Rs. 720-730 crore by January 2022 and expects to achieve more than Rs. 900 crore in by the end of the fiscal. The operating margins are likely to remain comfortable at ~7-8% in FY2022, thereby resulting in healthy debt protection metrics for the Group.

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

Strong customer base comprising renowned international players – The Group exports apparel and leather products to reputed global brands like Superdry, Ralph Lauren, Michael Kors, etc. It 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 the Group's revenue growth prospects and revenue visibility. Moreover, as almost the entire inventory is order backed, the risk of obsolescence also remains low.

Strong support by Government – Strong push by the Government of India towards improving textile exports from India, with special schemes introduced for the same, is expected to support an improvement in the company's financial profile and profitability going forward.

Credit challenges

High working capital intensity due to high receivables and inventory levels impacting liquidity – The Group's working capital intensity has remained high (between 25% and 46%) over the years, an attribute that is an industry characteristic. The company offers a credit period of ~60-120 days to its customers. It maintains an inventory in the form of cotton yarn, leather and fabric of around three months at any given time to ensure timely completion of orders from the established customers. On account of this, the working capital utilisation remains on a higher side.

Pricing power limited by intense competition in industry; business susceptible to seasonality and geographical-concentration risk – The Group 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, the company's revenues are exposed to geographical-concentration risk and seasonality in sales as more than 90% of the Group's revenues are derived from markets of North America and Europe. Its revenues also remain susceptible to economic cyclicity 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, the Group's revenues and profitability are susceptible to foreign exchange rate fluctuations, though mitigated to some extent by partial hedging of its receivables.

Liquidity position: Adequate

The Group's liquidity profile remains adequate, characterised by healthy cash and liquid investments of ~Rs. 35 crore as on March 31, 2021. The Group's working capital utilisation remained high and averaged at ~85% for the 18-month period ending in December 2021. In addition, there exists limited debt repayment obligations in the near to medium term

Rating Sensitivities

Positive factors – The ratings may be upgraded if the Group records a healthy growth in revenues and profits on a sustained basis thereby, improving its credit metrics. Key ratios, which may trigger an upgrade, include consolidated Return on Capital employed (ROCE) more than 16% on a sustained basis.

Negative factors – The ratings may be downgraded if pressure on the consolidated revenues and profits on a consistent basis weakens the credit metrics, or if there is an elongation in its working capital cycle, adversely impacting the liquidity position. Specific credit metrics for a rating downgrade include interest coverage lower than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Indian Textile Industry - Apparels
Parent/Group Support	None
Consolidation/Standalone	Consolidation

About the Group

MCPL, incorporated in 1977, manufactures 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, rugby, 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 in Gurgaon.

TDPL, 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). 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 was primarily involved in manufacturing polyester-based bottom wear, mainly for women. MCPL also provided corporate guarantee for the working capital debt on the books of IJC, which has been availed from Citibank Jordan. This entity was sold off in FY2021 and hence the Group does not have any liability as on date towards bank loans or creditors for IJC.

Key financial indicators (audited/provisional)

Group	FY2020(A)	FY2021(P)
Operating Income (Rs. crore)	869.62	528.76
PAT (Rs. crore)	20.61	9.41
OPBDIT/OI (%)	5.69%	14.65%
PAT/OI (%)	2.37%	1.78%
Total Outside Liabilities/Tangible Net Worth (times)	2.80	1.63
Total Debt/OPBDIT (times)	4.54	2.25
Interest Coverage (times)	3.11	5.90

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
						February 17, 2022	November 10, 2020	
1 Fund-based Term Loan	Long term	18.90	18.90	[ICRA]BBB(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-
2 Fund-based Working Capital	Short Term	106.80	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	-
3 Unallocated	Long term	-	-	-	-	-	[ICRA]BBB-(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Term Loan	Simple
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN Number	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based Term Loan	October 2017	-	April 2026	18.90	[ICRA]BBB(Stable)
-	Fund-based Working Capital	-	-	-	106.80	[ICRA]A3+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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