

March 14, 2023

## Matrix Clothing Private Limited: Ratings upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	18.90	1.64	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB (Stable)
Short-term – Fund based working capital	106.80	106.80	[ICRA]A2; upgraded from [ICRA]A3+
<b>Total</b>	<b>125.70</b>	<b>108.44</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA takes note that there will be no cash flow fungibility between parent entity, Matrix Clothing Private Limited (MCPL) and its wholly owned subsidiary, Tangerine Design Pvt Ltd (TDPL), as confirmed by the management. In light of this, the consolidated view approach that ICRA had applied earlier would no longer be applicable. However, since MCPL has provided corporate guarantee for the bank facilities of TDPL (rated ICRA BBB(Stable)/[ICRA]A3+), which is still in place, ICRA has considered the consolidated financials of MCPL to arrive at the ratings.

The ratings upgrade primarily factor in the significant improvement in the financial performance of MCPL in FY2022 and ICRA's expectation that the trend is likely to continue in the current fiscal. ICRA also positively factors in the substantial prepayment of term loan done in February 2023, which will further support the debt metrics. The liquidity position of the company remained comfortable as reflected by cash and liquid investments of around Rs. 55 crores as on January 31, 2023 in MCPL and Rs. 8.6 crore as on December 31, 2022 in TDPL. Further, the operating margins remained comfortable at ~10% in FY2022. For FY2023, the operating income and the margins are expected to remain in line with FY2022. However, the revenues might be impacted in the next one or two quarters owing to the uncertainties in the apparel export due to slowdown in the global economy and would remain the key monitorable. Nonetheless, the capital structure and debt coverage metrics are expected to remain healthy. The ratings continue to take into account the extensive experience of MCPL's 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 are, however, constrained by MCPL's exposure to high geographical concentration risk and intense competition, however established relationships reflected by repeat orders provide comfort. Further, the company's revenues and profitability remain susceptible to foreign exchange rate fluctuations, though the same is mitigated by the management to some extent by partial hedging of its receivables. The ratings are further constrained by MCPL's moderate to high working capital intensity and exposure of profitability to change in Government policies in relation to export incentive structure. 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. Although, TDPL (rated ICRA BBB(Stable)/[ICRA]A3+), on a standalone basis, has been performing well.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA's opinion that the credit profile would remain comfortable given the limited outstanding external debt and 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 scale** – On a consolidated basis, the company reported healthy growth of 84% in operating income to Rs. 974.3 crore in FY2022 vis-à-vis Rs. 528.8 crore in FY2021 on the back of healthy order flow from existing customers as well as addition of new customers. In terms of profitability, FY2021 was an exceptional year due to sale of PPE which garnered higher margins. In FY2022, the company reported OPM of 9.9% vis-à-vis 14.6% in FY2021 and 5.7% in FY2020. The operating margins are expected to remain comfortable around 11% with a single digit revenue growth in FY2023, thereby resulting in comfortable debt protection metrics at the consolidated level. The slowdown in global economy might impact the revenue in the coming 1-2 quarters and would remain key monitorable.

**Reduction in long-term debt following prepayment of term loan** – MCPL has prepaid sizeable term loan of ~Rs. 15 crore in February 2023 which will result in improved gearing and debt coverage indicators. As on March 31, 2022, on a consolidated basis, the company reported gearing of 1.08 times and Total Debt/OPBDITA of 2.34 times. The liquidity position of the company remained comfortable as reflected by cash and liquid investments of around Rs. 55 crores as on January 31, 2023 in MCPL and Rs. 8.6 crore as on December 31, 2022 in TDPL.

**Extensive experience of promoters and management in textile industry** – The company 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 company exports its products to reputed global brands 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 the company's revenue growth prospects and revenue visibility. Moreover, as almost the entire inventory is order backed, the risk of obsolescence also remains low.

### Credit challenges

**High working capital intensity due to high receivables and inventory levels** – The company's working capital intensity, on a consolidated level, has remained high over the years (although declined in FY2022 to 34% vis-à-vis 46% in FY2021), 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** – MCPL competes not only from other textile exporters from India but also from other low-cost garment exporting countries, which limits its ability to improve prices and margins. Moreover, the company's revenues are exposed to geographical-concentration risk and seasonality in sales. Its revenues also remain susceptible to economic cyclicity in the markets and their impact on consumer spending. However, established relationships reflected by repeat orders provide comfort.

**Exposed to foreign exchange rate fluctuations owing to export-driven revenue profile** – With a primarily export-driven revenue profile, the 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 company's liquidity profile remains **adequate**, characterised by healthy cash and liquid investments of around Rs. 55 crores as on January 31, 2023 in MCPL and Rs. 8.6 crore as on December 31, 2022 in TDPL. MCPL's working capital utilisation averaged at ~70% and TDPL at ~88% for the 10-month period ending January 2023. Further, the company has prepaid its term loans amounting Rs. 15 crore in February 2023 through its strong internal accruals.

## Rating sensitivities

**Positive factors** – The ratings upgrade would be driven by the significant improvement in scale of operations while maintaining its profitability margin, and improvement in the working capital cycle, resulting in healthy improvement in debt coverage metrics and liquidity position, on a sustained basis.

**Negative factors** – Pressure on ratings may emerge if there is a pressure on the company's revenues and profitability or if there is an elongation in its working capital cycle on a sustained basis. Further, the ratings could be impacted if there is any large-debt funded capex which could adversely impact the credit metrics and liquidity position. Specific credit metric that might trigger ratings downgrade include an OPBITDA/Interest of less than 3.5 times on a sustained basis.

## Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Indian Textile Industry - Apparels</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MCPL, details of which have been enlisted in Annexure II.

## About the company

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, 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 in Gurgaon.

MCPL also a wholly owned subsidiary, TDPL, which 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)

Consolidated	FY2021 (A)	FY2022 (A)
Operating Income (Rs. crore)	528.8	974.3
PAT (Rs. crore)	9.4	40.6
OPBDIT/OI (%)	14.6%	9.9%
PAT/OI (%)	1.8%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.7
Total Debt/OPBDIT (times)	2.2	2.3
Interest Coverage (times)	5.9	7.5

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

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					March 14, 2023	February 17, 2022	November 10, 2020	July 01, 2019	June 04, 2019
1	Fund-based Term Loan	Long term	1.64	1.64	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Fund-based Working Capital	Short Term	106.80		[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3
3	Unallocated	Long term	-		-	-	-	-	[ICRA]BBB- (Stable)

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Short-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, is available on ICRA's website: [Click Here](#)

**Annexure-I: Instrument details**

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based Term Loan	October 2017	-	FY2024	1.64	[ICRA]BBB+(Stable)
-	Fund-based Working Capital	-	-	-	106.80	[ICRA]A2

Source: Company

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

**Annexure-II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Matrix Clothing Private Limited	Holding Company	Full Consolidation
<b>Subsidiary Companies</b>		
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
MHPL Clothing Pvt. Ltd.	100.00%	Full Consolidation
<b>Joint Venture Company</b>		
Centre of Excellence In Design Limited	50.00%	Proportionately Consolidated
<b>Associate Company</b>		
Basko Finance and Leasing Pvt Ltd	-	Equity Method

Source: MCPL annual report FY2022

## ANALYST CONTACTS

### Jayanta Roy

91-33-71501100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

### Priyesh Ruparelia

91-22- 61693328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

### Sumit Jhunjunwala

91-33- 7150 1111

[sumit.jhunjunwala@icraindia.com](mailto:sumit.jhunjunwala@icraindia.com)

### Prerna Aggarwal

91-124-3341380

[prerna.aggarwal1@icraindia.com](mailto:prerna.aggarwal1@icraindia.com)

## RELATIONSHIP CONTACT

### Jayanta Chatterjee

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.