December 04, 2024

Mulberry Silks Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term–Term Loan	49.10	41.08	[ICRA]BBB+ (Stable); reaffirmed
Short term – Fund based	13.00	13.00	[ICRA]A2; reaffirmed
Short term – Non fund based	0.10	0.10	[ICRA]A2; reaffirmed
Long term / Short term - Unallocated	0.00	8.02	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	**62.20**	**62.20**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation on the bank loan ratings of Mulberry Silks Limited (MSL) considers the expected steady performance over the medium term, supported by its established presence in the silk fabric export market, long relationships with its customers and a comfortable capital structure. MSL's revenues grew by 37.4% to Rs. 170.3 crore on a YoY basis in FY2024 and its operating margin improved to 32.0%, supported by a one-time income received from land sale at Veerasandra, Bangalore for Rs.36.5 crore. Going forward, revenues generated from core business operations are likely to remain healthy, supported by an established track record with its customers. ICRA notes that MSL has recently constructed a commercial complex of ~1.4 lakh square feet in Veerasandra on the balance 30% of the retained property, which is likely to generate rental income from FY2026. The debt-funded investment made by MSL in FY2023 led to an increase in term loan borrowings and debt repayment obligations. Nevertheless, the loan repayments are backed by lease rentals from commercial property owned by MSL. Further, MSL's financial profile remains comfortable owing to its conservative capital structure, with TD/TNW and TOL/TNW of 0.4 times and 0.6 times, respectively in FY2024 against 0.5 times and 0.7 times, respectively in FY2023.

The ratings, however, remain constrained by moderate scale of operations, intense competition and limited pricing flexibility, exposing its earnings to volatile raw material prices and exchange rates. MSL further faces continued high customer and geographical concentration risks. Although its coverage metrics are likely to moderate in FY2025, the same are likely to remain adequate. Also, the interest of ~3% received on the debenture investment is expected to support its cash flows to some extent. ICRA notes that the entity had invested in its Group entities to an extent of Rs. 28.3 crore in FY2024 (~Rs. 0.6 crore as fixed capital and balance in current account), any further investments/loans would remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that MSL is likely to improve its earnings and coverage metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex/investments, if any, to further increase the capacity will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Established presence in silk fabrics export business – MSL is a major supplier of silk fabric from India and exports luxurious silk fabrics for furnishings, wall coverings and upholstery mainly to home decorators, trade shops and distributors in the UK and other European nations. The promoters have been involved in the business for more than three decades. The company has been able to forge strong relationships with an established clientele possessing vast experience in fabric making and wholesale business. MSL's scale of operations has been sustained over the years due to a stable customer base.

Comfortable capital structure – MSL's financial profile remains comfortable, with its conservative capital structure supported by stable earnings and its net worth. Key credit metrics including TD/TNW and TOL/TNW stood at 0.4 times and 0.6 times, respectively, in FY2024 against 0.5 times and 0.7 times, respectively in FY2023. Given the expected steady earnings and no major debt-funded capex plans in the medium term, MSL's capital structure is expected to remain comfortable.

Credit challenges

Moderate scale of operations – MSL's reported revenues of Rs. 170.3 crore in FY2024, and its scale of operations remain dependent on competition and changing product preferences, which limit the economies of scale to an extent in a capital-intensive sector. MSL's revenues over the medium term are likely to be supported by its established presence with a strong customer base and a wide product range. Further, the debt-funded investment in debentures of Rs. 50 crore in FY2023 led to an increase in term loan borrowings and debt repayment obligations. Owing to the one-time gain received in FY2024, coverage indicators stood strong with an interest coverage and debt service coverage ratio of 9.9 times and 4.4 times in FY2024, respectively (12.0 times and 5.4 times in FY2023, respectively). Coverage indicators are likely to remain adequate in the absence of any planned major debt-funded capital expenditure/investments.

Earnings exposed to limited pricing flexibility and business concentration risks – The European Union and the UK contributed around 75% to MSL's revenues in the past three fiscals. Further, MSL's customer concentration has remained relatively high with 49.6% of sales made to its top five customers in FY2024 (compared to 50.8% in FY2023), making the company vulnerable to demand from key markets and customers. However, MSL's long-term relationships with its customers have provided stability to its revenues, allowing MSL to leverage its expertise and to maintain its product quality. Further, intense competition and limited pricing flexibility expose MSL's earnings to fluctuations in raw material prices and exchange rates.

Liquidity position: Adequate

MSL's liquidity position is expected to remain adequate, supported by steady rental income and adequate unutilised lines of credit. The average utilisation of fund-based limits stood at ~91% of its sanctioned limit of Rs.13.0 crore for the last 12 months ending in September 2024. Further, MSL has fixed deposits of Rs.15.5 crore against which it had an overdraft outstanding of Rs.8.5 crore as of September 30, 2024. MSL has no major debt-funded capital expenditure plan and is likely to generate healthy cash accruals for supporting its debt repayment obligations of ~Rs. 2.5 crore in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade MSL's ratings, if its scale of operations and earnings register strong growth on a sustained basis, while maintaining its comfortable credit metrics. Key metrics, which could result in ratings upgrade include ROCE improving to more than 15% on a sustained basis.

Negative factors – Pressure on MSL's ratings could arise if revenues and earnings drop along with any sharp elongation of its working capital cycle. Further, a significant debt-funded capex/investment, which adversely impacts its coverage metrics and liquidity position, could also result in ratings downgrade. Specific credit metrics that may lead to a revision in the ratings include TOL/TNW of more than 1.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Textiles – Fabric](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

MSL finds its origin from Shakshambana Silks Private Limited (SSPL), which was taken over by the current promoters' family in 1990. It exports luxurious silk fabrics for furnishings, wall coverings and upholstery, primarily to the niche silk home furnishings segment, wherein the client base generally comprises high-end residential customers, hotel chains and palaces. MSL markets to distributors in the UK and European countries with exports accounting for ~90% of its revenues. The company has presence across jacquard, dobby, velvet, printed and embroidery fabrics. After altering its Memorandum of Association in FY2021, MSL began engaging in real estate activities.

Key financial indicators

MSL	FY2023	FY2024
Operating income	124.0	170.3
PAT	8.7	37.9
OPBDIT/OI	12.6%	32.0%
PAT/OI	7.0%	22.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	3.8	1.3
Interest coverage (times)	12.0	9.9

Source: Company, ICRA Research; 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: Not applicable

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
			Dec 04, 2024	Sep 15 ,2023	Jul 07, 2022	Jun 10, 2021
Term loan	Long term	41.08	**[ICRA]BBB+(Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
Fund based limits	Short term	13.00	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**
Non fund based limits	Short term	0.10	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**
Unallocated limits	Long term /short term	8.02	**[ICRA]BBB+ (Stable) /[ICRA]A2**	-	**[ICRA]BBB+ (Stable)/[ICRA]A2**	**[ICRA]BBB+ (Stable)/[ICRA]A2**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term– Term loan	Simple
Short term – Fund based	Simple
Short term – Non fund based	Very Simple
Long term/Short term -Unallocated	Not applicable

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	Term loan	FY2023	NA	FY2037	41.08	[ICRA]BBB+(Stable)
NA	Fund-based limits	-	NA	-	13.00	[ICRA]A2
NA	Non fund based - Bank guarantee	-	NA	-	0.10	[ICRA]A2
NA	Long term / Short term - Unallocated	NA	NA	NA	8.02	[ICRA]BBB+ (Stable) /[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 - Not Applicable

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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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