

March 07, 2017

Mulberry Silks Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long term- Fund Based Limits	4.07	Reaffirmed at [ICRA]BBB+ (Stable)
Short term- Fund Based Limits	19.20	Reaffirmed at [ICRA]A2
Short term- Non Fund Based Limits	0.10	Reaffirmed at [ICRA]A2
Long term/ Short term- Unallocated	13.83	Reaffirmed at [ICRA]BBB+ (Stable)/ [ICRA]A2
Total	37.20	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has re-affirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) outstanding on the Rs. 4.07 crore¹ fund based facilities and Rs. 13.83 crore of unallocated long term facilities of Mulberry Silks Limited (MSL / the company)². The outlook on the long term rating is stable. ICRA has also re-affirmed the short-term rating of [ICRA]A2 (pronounced ICRA A two) outstanding on the Rs. 19.20 crore fund based facilities, Rs. 0.10 crore non-fund based facilities and Rs. 13.83 crore of unallocated short term facilities of MSL.

Rationale

The ratings remains supported by the rich experience of the promoter with experience of over three decades in the silk industry, the company's strong relationship with suppliers enabling steady availability of quality raw material and established customer base thus providing stability to order flows. The ratings continued to derive comfort from MSL's comfortable capital structure (0.1x as on September 30, 2016) and coverage indicators (TD / OPBDITA³ stood at 1.5x) even as revenues have de-grown and margins contracted in the last two years.

The ratings remain constrained by MSL's vulnerability of revenues to macro-economical cycles of end user markets and moderate client concentration risks. MSL's sales volumes, which de-grew by ~13% in FY2015 due to weak demand, witnessed a 10% growth in FY2016 with rebound in demand. The ratings also consider the steady contraction in operating margins in the last two years due to rising raw material costs and MSL's inability to pass on the same fully to customers even as realizations were under pressure due to depreciation of currency post Brexit. Going forward, the company's ability to revive its revenue growth and improve the margins amid maintaining its debt indicators will be key credit monitorables.

¹ 100 lakhs = 1 crore = 10 millions

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

³ TD- Total Debt, OPBDITA – Operating Profit before Depreciation, Interest, Tax and Amortization

Key rating drivers

Credit Strengths

- Promoter's experience in the silk fabrics export business
- Long-standing relationships with overseas distributors expected to lend stability to revenues
- Established supplier base ensures high quality and timely supply of yarn
- Comfortable capital structure and coverage indicators

Credit Concerns

- Vulnerable to macroeconomic cycles owing to high dependence on the European Union and Great Britain markets; impacted by Euro fall in past two years
- Vulnerable to order volatility from top five customers who contribute to ~40% of revenues
- Lower pricing flexibility
- Steady contraction in profit margins due to rising raw material prices
- Competition from other low cost countries affects the revenue potential and expansion in margins due to pricing pressure.

Description of key rating drivers highlighted above:

MSL exports luxurious silk fabrics for furnishings, wall coverings and upholstery majorly to home decorators, trade shops and distributors in United Kingdom (UK) and Continental Europe. The Company also exports silk fabrics to United States of America (USA) and Middle East. In terms of operations, the company procures raw silk yarn, process the same and weaves it to fabric and engages job workers for value additions like embroidery and printing. The main fabric varieties manufactured by the Company include Dupion, Taffeta and Jacquard fabrics. Exports account for over 80% of sales on an average while the balance sales are made to the domestic market. The entire processing (except value addition jobs like embroidery/ printing) is done in-house. Value additions are outsourced to job workers.

The Company primarily caters to the niche silk home furnishings segment wherein majority of the customers are high-end residential customers, hotel chains and palaces. The Company supplies to fabric editors in the export markets who in turn supply the product to a network of interior designers. Interior designers in turn supply the end product to the various home owners.

MSL reported revenues of Rs. 146.8 cr in FY2016, a 5.6% YoY de-growth led by over 10% increase in volumes and 14% decline in realizations due to the depreciation in currency post Brexit. This coupled with rising raw material prices resulted in contraction in profit margins, but with comfortable capital structure and coverage indicators, the company's financial profile remains healthy. Going forward, the company's ability to revive its revenue growth and improve the margins amid maintaining its debt indicators will be key credit monitorables.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

About the Company:

Mulberry Silks Limited (MSL / the company) has been engaged in the business of manufacturing and exporting of silk and silk blended fabrics for almost three decades. The company finds its origin from a company named Shakshambana Silks Private Limited (SSPL) which was taken over by the current promoters' family in 1989-90. Later in 1996, the family floated another company - Mulberry Silks International Limited (MSIL) with all the directors of SSPL on board. Since SSPL used to receive all the orders in name of MSIL, SSPL was renamed to Mulberry Silks Private Limited (MSPL) in May, 2002. MSPL was subsequently converted to Mulberry Silks Limited (MSL) in June 2002. Though the promoters have commenced many small businesses, MSL remains the flagship company of the group while Mulberry Silks International Limited is its 100% subsidiary.

MSL recorded a net profit of Rs. 2.2 crore on an operating income of Rs. 65.7 crore for the half year ending September 30, 2016. During FY2016 company reported a net profit of Rs.7.2 crore on an operating income of Rs. 146.8 crore as compared to a net profit of Rs. 5.3 crore on an operating income of Rs. 155.5 crore for the year ending March 31, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
				March 2017	March 2016	April 2015	April 2014	
1	Term Loan	Long Term	4.07	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2	EPC/PCFC/ FDBP/FUBP/EBR/ SLC	Short Term	19.20	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
3	BG	Short Term	0.10	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	
4	Unallocated	Long/ Short Term	13.83	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	
	Total		37.20					

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
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	July, 2016	-	September, 2021	4.07	[ICRA]BBB+ (Stable)
EPC/PCFC/ FDBP/FUBP/E BR/ SLC	-	-	-	19.20	[ICRA]A2
BG	-	-	-	0.10	[ICRA]A2
Unallocated	-	-	-	13.83	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: Mulberry Silks Limited

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