

Mittal Clothing Company

April 26, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Working Capital Facilities	20.00	[ICRA]BB+ (Stable) Assigned
Long Term / Short Term - Unallocated	0.51	[ICRA]BB+(Stable)/[ICRA]A4+ Assigned
Total	20.51	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BB+ (pronounced as ICRA Double B Plus) to the Rs. 20.00-crore¹ working capital facility of Mittal Clothing Company (MCC)². ICRA has also assigned the long-term rating of [ICRA]BB+ and the short-term rating of [ICRA]A4+ (pronounced as ICRA A Four Plus) to the Rs. 0.51-crore unallocated limits of the firm. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in MCC's comfortable capital structure and coverage indicators, the year-on-year (YoY) improvement in its operating revenues, its track record in the garment export business, and its established relationship with overseas clients. ICRA notes that the firm is backward integrated into fabric manufacturing which provides control on quality and thus, help to generate repeat orders. The ratings, however, are constrained by the firm's small scale of operations, low operating profitability and low net worth position, which restricts the operational and financial flexibility to an extent. High customer concentration with a major part of exports to Hennes & Mauritz (H&M) exposes the firm to the vagaries of adverse developments at any one large customer's end, as any reduction in demand from H&M can impact sales, however, moderate geographical diversification with sales to H&M across the USA, China and the European markets provide comfort to an extent. The ratings also take into consideration the susceptibility of its profit margins to raw material prices and foreign currency fluctuation, however, hedging through forward contracts mitigate the risk to some extent. The ratings also take into account the risk arising from partnership nature of the firm including the risk of capital withdrawal.

Going forward, the firm's ability to diversify its client base, expand its revenues and margins, while effectively managing its working capital requirements, remains the key rating sensitivities.

Outlook: Stable

ICRA expects that MCC will continue to benefit from the extensive experience of its promoters and the established relationship with its reputed customers. The outlook may be revised to 'Positive' if substantial improvement in revenue and profitability generates strong cash flows and strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected or if any stretch in the working capital cycle, weakens the liquidity.

¹100 lakh = 1 crore = 10 million

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

Key rating drivers

Credit strengths

Established relationship with reputed clientele translates to regular flow of orders and significant customer concentration risk - The firm exports to established clothing retailers including H&M, Polo Ralph Lauren and Taylor Vintage. However, its sales are concentrated towards H&M from which it derives a major part of the revenue. Exports to H&M had contributed to ~100% of the sales in FY2018. MCC has a strong relationship of over 10 years with H&M, with YoY increasing sales volume. Nevertheless, its customer concentration risk remains significant. Any significant order volatility from this customer could accentuate revenue volatility risks and impact profitability.

Backward integration into fabric manufacturing provides control on quality - The firm is backward integrated into fabric manufacturing to have stringent control on quality and attain cost efficiency.

Comfortable capital structure and coverage indicators - The firm's debt profile mainly comprises working capital borrowings. The capital structure and coverage indicators stood at comfortable levels due to reduced working capital borrowings and steady accruals as on March 31, 2018.

Moderate geographical diversification with a major part of sales to the European countries - The firm caters to the USA, China and the European market with sales being made to customers in Germany, Belgium, Poland, Sweden etc. There is minimal domestic sale of garments. Germany is the key export destination that contributed around 19% to the total sales followed by the USA at 17% in FY2017.

Credit challenges

Small scale of operations with low operating profitability, notwithstanding, YoY increase in revenues - Although the firm has witnessed a healthy growth for the past five years along with increasing capacity utilisation, its scale of operations remains small, which limits economies of scale and financial flexibility. MCC has low operating profit margins because of its presence in the affordable segment of the apparel industry and high administrative costs.

Competition from low-cost countries restricts pricing flexibility - Intense competition from the low-cost countries can adversely impact the firm's business risk profile.

Margins susceptible to volatility in raw material prices and foreign exchange rate fluctuation - The firm continues to focus on the overseas markets as over 95% of its products are exported to the US, China, Europe etc. As a result, it remains exposed to the risk of adverse foreign exchange fluctuations. Moreover, any adverse movement in the price of raw materials could also have an adverse impact on its margins, considering the limited ability to pass on the price hike owing to the stiff competition.

Risks associated with constitution as a partnership firm - The firm is exposed to the risks arising from its partnership nature, including withdrawal of capital, among others

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Indian Textile Industry - Apparels](#)

About the company:

Incorporated in 1996 as a partnership firm, MCC is a Government-recognised star export house involved in the manufacture and export of readymade garments (knitted T-shirts) catering to the export markets of Europe, the USA and China. The firm is owned by Mr. Gajanand Mittal, Mr. Deepak Mittal, Mr. Mukesh Mittal, Mr. Pankaj Mittal and Mr. Rajesh Mittal. It operates through its sourcing unit in Tirupur and two factories located in Bangalore with an annual installed production capacity of 60 lakh pieces of ready-made garments.

In FY2018 (provisional), the firm reported a profit before tax of Rs. 4.05 crore on an operating income (OI) of Rs. 91.05 crore, as compared to a profit before tax of Rs. 2.82 crore on an OI of Rs. 87.66 crore in the previous year.

Key financial indicators

	FY2017 (Audited)	FY2018 (Provisional)
Operating Income (Rs. crore)	87.66	91.05
PAT (Rs. crore)	1.72	2.71*
OPBDIT/ OI (%)	1.82%	2.86%
RoCE (%)	14.20%	22.62%
Total Debt/ TNW (times)	0.52	0.18
Total Debt/ OPBDIT (times)	4.83	1.39
Interest Coverage (times)	2.33	2.31
NWC/ OI (%)	12.14%	18.74%

Status of non-cooperation with previous CRA:

CARE BB, Stable; ISSUER NOT COOPERATING*. The company has not provided the requisite information for monitoring the rating. (*Issuer did not cooperate; Based on best available information)

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 EPC (EPC/ FBC/ EBR/ PCFC)	Long Term	20.00		Apr 2018 [ICRA]BB+ (Stable)	-	-	
2 Unallocated	Long Term / Short Term	0.51		[ICRA]BB+ (Stable)/ [ICRA]A4+	-	-	[ICRA]B+/A4 Suspended
Total		20.51					

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	EPC (EPC/ FBC/ EBR/ PCFC)	NA	NA	NA	20.00	[ICRA]BB+ (Stable)
NA	Unallocated	NA	NA	NA	0.51	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Mittal Clothing Company

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