April 07, 2021

Mallcom (India) Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital facilities	75.00	70.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Untied Limits	-	5.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upward revision in the rating of Mallcom (India) Limited (MIL) considers the favourable demand outlook for the industrial safety products and a likely increase in the scale of operations in FY2021 compared to FY2020 with improved profitability. The rating also considers MIL's established track record of operations, long experience of the promoter in the industrial safety product industry, and its established client base, which along with a diverse product mix, strengthens its market position. The rating also favourably factors in MIL's conservative capital structure and comfortable level of debt protection metrics.

The rating is, however, constrained by the intense competition in the safety product industry and low bargaining power with large clients, which limit pricing flexibility and keep margins under check. The rating is also impacted by the high working capital intensity of operations and geographical concentration risk. Further, the rating continues to factor in the vulnerability of the company's profitability to fluctuations in the foreign currency exchange rates, although the same is mitigated to a considerable extent by the partial natural hedge and formal hedging mechanisms adopted by the company. The rating also factors in any adverse changes in government regulations, which could potentially impact the competitiveness of its products as well as business.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that MIL will continue to benefit from its established track record of operations in the industrial safety products industry and maintain its business position while sustaining the profit levels.

Key rating drivers and their description

Credit strengths

Favourable demand outlook for MIL's products –Increasing safety awareness leads to favourable growth prospects for the industrial safety products both in the domestic and international markets. The same is evident from MIL's sizeable order book position of ~ Rs. 158 crore as on March 18, 2021. The company has recorded a top line of Rs. 220.04 in 9M FY2021 vis-a-vis around Rs. 218.06 in 9M FY2020. However, healthy order book and favourable demand of safety products are likely to translate into an increase in the top line in the fourth quarter of FY2021. The operating income of the company is expected to grow by more than 10% in FY2021 compared to FY2020, supported by an increase in both domestic and export sales.

Established track record of operations in industrial safety products industry – MIL has been involved in the manufacturing, export and distribution of industrial safety products for more than three decades. The products are sold both in the domestic and export markets. The company's established track record of operations and long experience of the promoter mitigate operational risk to an extent.

Established relationship with the clientele and a diversified product mix strengthen operating profile – The product profile of MIL consists of leather gloves, synthetic gloves, garments, shoes etc. The diversified product portfolio of the company reduces product concentration risk to a large extent. MIL has a reputed and an established client base across various countries, which generates repeat orders, highlighting the acceptable product quality. MIL supplies its products to around 30 countries across the world. However, MIL's revenues remained geographically concentrated as more than 30% of its total sales in FY2020 were derived from the European Nations.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of debt protection metrics – The operating margin improved to 11.10% in FY2020 from 9.79% in FY2019. The margin is expected to improve further in FY2021. MIL posted a PAT of Rs. 17.88 crore in 9M FY2021 compared to Rs. 13.71 crore in 9M FY2020. The company's capital structure continued to remain at a conservative level on the back of a healthy net worth and low reliance on external debt, as depicted by total outside liabilities relative to a tangible net worth of 0.80 times as on March 31, 2020 (1.21 times as on March 31, 2019). MIL's capital structure improved in FY2020 with a gearing of 0.34 times as on March 31, 2020 compared to 0.60 times as on March 31, 2019. This, coupled with an increase in absolute profits, strengthened the company's debt coverage indicators in FY2020. ICRA expects that the overall capital structure would continue to remain conservative and the coverage indicators comfortable, in the near-to-medium term.

Credit challenges

Stiff competition in safety wear industry exerts pressure on margins – Intense competition from organised and unorganised players in the international safety wear market because of the low value-accretive nature of products and limited bargaining power against large overseas clientele limit the pricing flexibility. This keeps margins at a moderate level despite export incentives received from the Government.

High working capital intensity of operations – The company's working capital intensity of operations remains high on account of considerable inventory requirements due to its diverse product portfolio and an extended receivables cycle. The NWC/OI of the company improved to 26% in FY2020 from 31% in FY2019 due to release of government receivables. However, the same is expected to increase to some extent in the near term, exerting pressure on the liquidity position. However, a substantial cash/bank balance and liquid investments provide comfort to its liquidity position.

Considerable dependence on exports; remains exposed to regulatory risks – The company generates a significant portion (67% in 9M FY2021) of its revenue from export sales, which exposes MIL to foreign exchange rate fluctuation risk. However, the company follows a formal hedging mechanism to hedge the entire foreign currency receivables. In addition, import of some of the raw materials provides a partial natural hedge. This mitigates the company's foreign exchange rate fluctuation risk to a large extent. Also, as an exporter, MIL enjoys export incentives and interest subvention under various schemes run by the Government of India (GoI). Accordingly, the revenues and profitability of MIL remain susceptible to regulatory risks such as changes in duty structure, rate of export incentives etc, which could potentially impact the competitiveness of its products as well as the business.

Liquidity position: Strong

The company has generated positive fund flow from operations over the past few years, supported by healthy cash accruals from the business. The average fund-based working capital utilisation has remained at a moderate level of around 46% during the last 15 months till February 2021. In view of adequate cash flows from operations, sizeable liquid investments and absence of significant long-term debt service obligations, ICRA expects MIL's liquidity position to remain strong in the near term despite capital expenditure plans.

Rating sensitivities

Positive factors – ICRA may upgrade MIL's rating if the company is able to increase its scale of operations substantially, while maintaining profitability, coverage indicators and improving working capital cycle.

Negative factors – Pressure on MIL's rating may arise if there is an increase in the working capital intensity or a decline in revenue or profit margins. Pressure may also arise from any predominantly debt-funded capital expenditure, which may adversely impact the company's liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Mallcom (India) Limited. As on March 31, 2020, the company had two wholly-owned subsidiaries that are enlisted in Annexure- 2.

About the company

Incorporated in 1983 and promoted by Mr. Ajay Mall, Mallcom (India) Limited (MIL) manufactures industrial safety products. MIL sells its products both in domestic and international markets. The product profile includes various kinds of personal protective equipment from head to toe like garments, leather and synthetic gloves, safety shoes, helmets etc. It has three manufacturing facilities in Kolkata (West Bengal) and one in Haridwar (Uttarakhand). The company had two wholly-owned subsidiaries, namely Mallcom Safety Private Limited (MSPL) and Mallcom VSFT Gloves Private Limited, which are also involved in manufacturing/ processing of few protective equipment, primarily for MIL. However, in FY2021, MIL diluted its stake in MSPL to 50.01%.

The company has recently acquired a 100% stake in Best Safety Private Limited (BSPL), a group company of MIL, at a consideration of Rs. 5.33 crore. BSPL was manufacturing safety shoes and selling the same to MIL. The company has also announced that the board of directors has approved the scheme of amalgamation between MIL and BSPL.

Key financial indicators (audited)

MIL Consolidated	FY2019	FY2020	9M FY2021	9M FY2020
Operating Income (Rs. crore)	297.83	286.05	220.04	218.06
PAT (Rs. crore)	14.94	19.24	17.88	13.71
OPBDIT/OI (%)	9.79%	10.44%	13.26%	11.09%
PAT/OI (%)	5.02%	6.73%	8.13%	6.29%
Total Outside Liabilities/Tangible Net Worth (times)	1.21	0.80	-	-
Total Debt/OPBDIT (times)	1.91	1.26	-	-
Interest Coverage (times)	7.39	11.64	24.89	11.97

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

Status of non-cooperation with previous CRA: Not applicable

CRA	Status of non-cooperation	Date of Press Release
India Ratings	India Ratings Downgrades Mallcom (India) Ltd to 'IND BB (ISSUER NOT COOPERATING)'	July 10, 2020

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 on March 31, 2021 (Rs. Crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Apr 7, 2021	**June 29, 2020**	**-**	**Mar 11, 2019**
1	Pre-shipment/Post-shipment credit facilities	Long-term	70.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2	United Limits	Long-term	5.00	-	[ICRA]A- (Stable)	-	-	-

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 click here

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	Pre-shipment/ Post-shipment credit facilities	NA	NA	NA	70.00	[ICRA]A- (Stable)
NA	United Limits	NA	NA	NA	5.00	[ICRA]A- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Mallcom Safety Private Limited	100.00%	Full Consolidation
Mallcom VSFT Gloves Private Limited	100.00%	Full Consolidation

Source: Mallcom (India) Limited

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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.

For more information, visit www.icra.in

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