July 22, 2022

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 Limits – Working Capital Facilities	70.00	75.00	[ICRA]A (Stable), upgraded from [ICRA]A- (Stable)
Unallocated Limits	5.00	-	-
Total	**75.00**	**75.00**	

** Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Mallcom (India) Limited (MIL) along with its three subsidiaries, referred to as the company/ MIL, given the close operational, financial and managerial linkages among them.

The upward revision in the rating of MIL considers the favourable demand outlook for the industrial safety products and a steady increase in the scale of operations over the past two years, which is likely to continue in the current fiscal as well. ICRA notes that the overall profits and cash accruals from the business has witnessed a steady growth over the years, driven by increasing sale of high-margin products. 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 as well as moderately diversified client base, which along with a diverse product mix, strengthen its market position. The rating also favourably factors in MIL's comfortable financial risk profile, characterised by a conservative capital structure and strong 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, exerting pressure on cash flows. 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 the 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 its profitability level in the long run.

Key rating drivers and their description

Credit strengths

Favourable demand outlook and 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 the export markets. The company's established track record of operations and long experience of the promoter mitigate operational risk to a large extent. The operating income of the company has grown to around Rs. 357 crore in FY2022 from around Rs. 253 crore in FY2017 on the back of increasing awareness and favourable demand of personal protective equipment. Increasing safety awareness leads to favourable growth prospects for the industrial safety products both in the domestic and international markets. In view of healthy order book and a likely increase in the export sale of industrial garments from MSPL, the overall top line of MIL, on a consolidated basis, is likely to register a growth of around 15% in FY2023 compared to the last fiscal.

Diversified and flexible product mix lead to competitive advantages – The company has a diversified product portfolio comprising leather gloves, cotton and synthetic gloves, nitrile dipped gloves, industrial safety garments, safety shoes, etc. which are used for multiple purposes. The company's diverse range of products provide a cushion against adverse market conditions in any particular segment.

Fairly diversified customer base and geographical presence – MIL has a reputed and established client base across industries, which generates repeat orders, reflecting acceptable product quality and low counterparty risk. The top ten customers of the company contributed 35-40% of the total revenue over the past few years, reflecting a moderately diversified customer base. Although the company supplies its products to around 45 countries across six continents, MIL's revenues remained geographically concentrated as more than 40% of its total revenue in FY2022 were derived from the European Nations.

Steady improvement in profits and cash accruals from business over the past few years – The operating margin of MIL, on a consolidated level, witnessed a steady growth to 13.9% in FY2022 from 8.3% in FY2017, primarily due to an increase in the sale of high-margin products. ICRA notes that the overall profits and cash accruals from the business witnessed a steady growth over the last four years. The RoCE of the company also remained at a comfortable level in the past. MIL's profitability is supported by export incentives. Any adverse government regulation related to these incentives is likely to have an impact on the profitability as well price competitiveness in the international market. In view of increasing sale of high-margin products, the margins of the company in FY2023 are estimated to remain in line with the previous years. Cash accruals from the business would also continue to remain healthy, going forward, as witnessed in the past.

Comfortable financial risk profile, as reflected by a conservative capital structure and strong debt protection metrics – The capital structure of the company has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. Total outside liabilities relative to the tangible net worth stood at 0.6 times as on March 31, 2022, which is likely to remain low going forward, in the absence of any debt-funded capital expenditure programme. The coverage indicators stood at a healthy level because of low gearing and healthy profits as well as cash accruals from its business. ICRA does not foresee any major deterioration in the capital structure and coverage indicators of the company, going forward.

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 on account of the low value-accretive nature of products and limited bargaining power against large overseas clientele limit its pricing flexibility. This keeps the margins under check despite export incentives received from the Government of India (GoI).

Exposed to foreign exchange rate fluctuation and regulatory risks – MIL generates a significant portion (64% in FY2022) of its revenue from export sales, which exposes it to foreign exchange rate fluctuation risk. However, the foreign currency exposure is largely hedged by forward cover. In addition, import of some raw materials provides a partial natural hedge. This mitigates the foreign exchange rate fluctuation risk to a large extent. Moreover, as an exporter, MIL enjoys export incentives and interest subvention under various schemes run by the GoI. Accordingly, its revenues and profitability remain susceptible to the 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 business.

Significant receivables and stocking requirement lead to high working capital intensity of operations – Significant receivables and stocking requirements keep the company's working capital intensity of operations at a high level, as reflected by the net working capital relative to the operating income of 35% in FY2022, which in turn exert pressure on its cash flows. MIL's working capital intensity of operations is likely to remain at a high level, going forward. However, undrawn line of credit and free cash/bank balance provide some comfort to its liquidity position.

Liquidity position: Strong

The company generated positive fund flow from operations over the past few years, supported by healthy cash accruals from the business. However, cash flow from operations turned negative in FY2022 due to an increase in the scale of operations along with working capital intensity of operations. Nevertheless, the company is likely to generate positive free cash flows in FY2023. The average fund-based/ non-fund based working capital utilisation has remained at a moderate level of around 54%

during the last 15 months, leaving sufficient buffer for future working capital requirement. Also, the company has free cash/bank balance of around Rs. 7 crore as on March 31, 2022. ICRA notes that a part of its cash flows from operations would be utilised for funding the ongoing capex programme of around Rs. 15 crore (of an estimated total capital outlay of around Rs. 25 crore) for setting up a new unit, which is scheduled to become operational in phases by March 2023. Nevertheless, in view of adequate free cash flows, unutilised working capital limits, surplus cash/ bank balance and the absence of major long-term debt service obligations, ICRA expects MIL's liquidity position to remain strong, going forward.

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 and comfortable liquidity position on a sustained basis.

Negative factors – Pressure on MIL's rating may arise if there is a significant decline in revenues or margins. Increase in working capital intensity, affecting the liquidity position might also exert pressure on the rating. Specific credit metric that may trigger a rating downgrade include RoCE of less than 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation
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, 2022, the company had three subsidiaries, of which two are wholly-owned, and are enlisted in Annexure- 2.

About the company

Incorporated in 1983, Mallcom (India) Limited (MIL) manufactures industrial safety products. MIL sells its products both in domestic and international markets. The product profile includes a wide range of personal protective equipment from head to toe like industrial garments, leather and synthetic gloves, safety shoes, helmets etc. The company's manufacturing facilities are in West Bengal and in Haridwar, Uttarakhand. At present, the company has two wholly-owned subsidiaries namely, Mallcom VSFT Gloves Private Limited (MVGPL) and Best Safety Private Limited (BSPL), which are also involved in manufacturing/ processing of personal protective equipment, primarily for MIL. The company has another subsidiary namely, Mallcom Safety Private Limited (MSPL) in which it has an equity stake of 50.003% and the balance is held by a foreign investor based out of the UAE. MSPL commenced its operations in FY2022 and manufactures industrial garments, which are exclusively sold in the international market. The company has already applied for amalgamation of BSPL with MIL. However, approval for the same is pending with NCLT.

Key financial indicators (audited)

	Standalone			Consolidated		
	FY2020	FY2021	FY2022	FY2020	FY2021	FY2022
Operating Income (Rs. crore)	286.0	325.1	367.0	286.0	315.4	357.2
PAT (Rs. crore)	18.6	25.5	30.9	19.2	28.4	31.7
OPBDIT/OI (%)	9.9%	11.1%	12.5%	10.4%	12.7%	13.9%
PAT/OI (%)	6.5%	7.9%	8.4%	6.7%	9.0%	8.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8	0.5	0.8	0.7	0.6
Total Debt/OPBDIT (times)	1.2	1.5	1.0	1.3	1.4	1.1
Interest Coverage (times)	11.0	22.8	25.0	11.6	25.1	24.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
***Source**: Mallcom (India) Limited*

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
India Ratings	IND BB/A4+ Issuer not cooperating	July 16, 2021

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 Mar 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jul 22, 2022	**Apr 7, 2021**	**Jun 29, 2020**	**-**
1	Working Capital Facilities	Long Term	75.00	28.59	**[ICRA]A (Stable)**	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	-
2	Unallocated Limits	Long Term	-	NA	-	[ICRA]A- (Stable)	-	-

Source: *Mallcom (India) Limited*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – working capital facilities	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 analyzing 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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Pre-shipment/ Post-shipment working capital facilities 1	-	-	-	50.00	[ICRA]A (Stable)
NA	Pre-shipment/ Post-shipment working capital facilities 2	-	-	-	25.00	[ICRA]A (Stable)

***Source**: Mallcom (India) Limited*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mallcom VSFT Gloves Private Limited	100%	Full Consolidation
Best Safety Private Limited	100%	Full Consolidation
Mallcom Safety Private Limited	50.003%	Full Consolidation

***Source**: Mallcom (India) Limited*

ANALYST CONTACTS

Mr. Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Mr. Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches