Mallcom (India) Limited

March 11, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital facilities	75.00	[ICRA]BBB+ (Stable); Assigned
Total	**75.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into consideration Mallcom (India) Limited's (MIL) established track record of operations and 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. ICRA notes that the overall profitability and cash accruals from the business have witnessed a steady improvement over the past few years. The rating also favourably factors in MIL's conservative capital structure and comfortable level of debt protection metrics. The rating further derives comfort from a favourable demand outlook for MIL's products.

The rating is, however, constrained by the intense competition in the safety product industry and the low bargaining power with large clients, which limits pricing flexibility and keeps the 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.

Outlook: Stable

ICRA believes that MIL will continue to benefit from its established track record of operations and favourable demand prospects in the industrial safety-products industry. The outlook may be revised to Positive if the company is able to increase its scale of operations while improving its profitability, capital structure and coverage indicators. The outlook may be revised to Negative if cash accrual is lower than expected, or stretch in the working capital cycle, weakens its liquidity.

Key rating drivers

Credit strengths

Long presence 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 company's established track record of operations and long experience of the promoter mitigate operational risk to an extent.

Established relationship with clientele and a diverse product mix strengthen operating profile – The product profile of MIL consists of leather gloves, synthetic gloves, garments, shoes etc. MIL has a reputed and established client base across various countries, which generates repeat orders, highlighting the acceptable product quality. Further, the company's diverse range of products provides a cushion against adverse market demand for any particular product.

Favourable financial risk profile, as reflected by a conservative capital structure and comfortable level of debt protection metrics – The company's capital structure has remained at a conservative level on the back of healthy net worth and low reliance on external debt, as depicted by total outside liabilities relative to tangible net worth of 1.28 times as on March 31, 2018 (1.51 times as on March 31, 2017). At present, the total debt of the company consists of only working capital facilities. ICRA notes that overall profitability and cash accruals from business witnessed a steady growth over the past few years. Low gearing and healthy cash accruals have kept the coverage indicators at a comfortable level. On account of improvement in overall profits and cash accruals, the coverage indicators of the company are likely to improve further in the current fiscal compared to the previous fiscal.

Favourable demand outlook for industrial safety-products industry – MIL is expected to benefit from the increasing awareness about work safety in the domestic market. Also, due to rising labour costs in China, international buyers are expected to shift their sourcing to other countries and the same may result in an increase in demand for Indian players such as MIL.

Credit challenges

Intense competition and low bargaining power against large clients limit pricing flexibility - Intense competition in the international safety-wear market on account of the low value-accretive nature of products and limited bargaining power with large overseas clientele limit pricing flexibility and keep the operating margin at a moderate level.

High geographical concentration risk - MIL supplies its products to more than 30 countries around the world. However, the revenues for MIL remained geographically concentrated as around 50% of the total sales in FY2018 were derived from European Nations, exposing the company to the risk arising from unfavourable foreign trade policy as well as change in demand trends in these markets. However, the company's increased focus on domestic and Asian markets aims to facilitate gradual diversification of regional presence.

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 increased to 35% in FY2018 from 30% in FY2017, adversely impacting its cash flow from operations.

Considerable dependence on exports; remains exposed to regulatory risks – The company generates a significant portion (70% in FY2018) 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

The company has generated positive fund flow from operations (FFO) during the last five years on account of healthy cash accruals from the business. The average fund-based working capital utilisation has remained at a moderate level during the last 15 months, till December 2018. ICRA notes that the company does not have any long-term debt servicing obligations in the near to medium term. In view of adequate cash flows from the operations and absence of long-term debt service obligations, ICRA expects MIL's liquidity position to remain comfortable, going forward, despite capital expenditure plans, which would be funded by internal accruals only.

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, 2018, 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 for 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 has two wholly-owned subsidiaries namely Mallcom Safety Private Limited and Mallcom VSFT Gloves Private Limited, which are also involved in manufacturing/ processing of few protective equipment, primarily for MIL.

Key financial indicators (Consolidated)

Standalone	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	252.77	244.53
PAT (Rs. crore)	10.08	8.45
OPBDIT/ OI (%)	8.32%	8.58%
RoCE (%)	13.78%	13.11%
Total Debt/ TNW (times)	0.92	0.73
Total Debt/ OPBDIT (times)	3.09	2.75
Interest Coverage (times)	6.02	4.96

Source: Mallcom (India) Limited, ICRA adjustment

Status of non-cooperation with previous CRA:

CRA	Status of non-cooperation	Date of Press Release
India Ratings	India Ratings Migrates Mallcom (India) Limited to Non-Cooperating Category	January 16, 2019

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) March 31, 2018	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					March 2019	-	-	-
1	Pre-shipment/Post-shipment credit facilities	Long Term	75.00	NA	[ICRA]BBB+ (Stable)	-	-	-

Source: Mallcom (India) Limited

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
-	Pre-shipment/ Post-shipment credit facilities	NA	NA	NA	75.00	[ICRA]BBB+ (Stable)

Source: Mallcom (India) Limited

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

Company Name	Ownership	Consolidation Approach
Mallcom Safety Pvt. Ltd	100.00%	Full Consolidation
Mallcom VSFT Gloves Pvt. Ltd	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.

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