June 29, 2020

Mallcom (India) Limited: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating considers Mallcom (India) Limited's (MIL) 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 likely adverse impact of the Covid-19 on the operational profile of MIL in the near term at least and uncertainty over the economic impact of the pandemic. Intense competition in the safety product industry and low bargaining power with large clients 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]BBB+ rating reflects ICRA's opinion that MIL will continue to benefit from the vast experience of the promoter in the industrial safety products industry, a diversified product portfolio and its established market position.

Key rating drivers and their description

Credit strengths

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 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 9M 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 company's capital structure continued to remain 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 a tangible net worth of 1.21 times as on March 31, 2019 (1.28 times as on March 31, 2018). At present, the total debt of the company consists of only working capital facilities. Low gearing and healthy cash accruals have kept the coverage indicators at comfortable levels. ICRA expects that the overall gearing would continue to remain conservative and the coverage indicators comfortable, in the near-to-medium term, on the back of moderate level of profitability and low debt level.

Credit challenges

Adverse impact of Covid-19 likely on operational profile in the near term at least – Considering the impact of the Covid-19 pandemic, MIL's revenues and profitability are likely to witness some moderation in Q1 FY2021 compared to Q1 FY2020. Nevertheless, the loss of revenue is expected to be partially offset by the sale of masks and personal protective equipment (PPE) for the healthcare segment. Also, the uncertainty over the unprecedented situation of the Covid-19 pandemic may adversely impact the overall business risk profile of the company, if the situation worsens further.

Stiff competition in safety wear industry, exerting 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 stood at 31% in FY2019, exerting pressure on the liquidity position.

Considerable dependence on exports, remains exposed to regulatory risks – The company generates a significant portion (64% in 9M FY2020) of its revenue from export sales, which expose 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: Adequate

The average fund-based working capital utilisation has remained at a moderate level of around 48% during the last 15 months till May 2020. 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 would continue to remain adequate, in the near to medium term, despite capital expenditure plans.

Rating sensitivities

Positive triggers – 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 triggers – Pressure on MIL's rating may arise if there is a decline in revenues or profit margins. An increase in working capital intensity might also exert downward pressure on the rating.

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, 2019, 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 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)

	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Unaudited)	9M FY2019 (Unaudited)
Operating Income (Rs. crore)	244.53	297.83	218.06	213.46
PAT (Rs. crore)	8.45	14.94	13.71	11.41
OPBDIT/OI (%)	8.58%	9.79%	11.09%	11.38%
RoCE (%)	13.11%	18.62%	-	-
Total Outside Liabilities/Tangible Net Worth (times)	1.28	1.21	-	-
Total Debt/OPBDIT (times)	2.75	1.91	-	-
Interest Coverage (times)	4.96	7.39	11.97	8.12
DSCR	4.27	6.21	-	-

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 migrated Mallcom (India) Limited to Non-Cooperating Category	January 16, 2019

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years
		Type	Amount Rated	Amount Outstanding December 31, 2019	Rating	FY2019
					29-June-2020	11-March-2019
1	Pre-shipment/Post-shipment credit facilities	Long Term	75.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Source: Mallcom (India) Limited
Amount in Rs. crore

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 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.

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