

March 27, 2020

Mittal Life Style Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Cash Credit Facilities	4.40	[ICRA]BB (Stable); Assigned
Unallocated	5.60	[ICRA]BB (Stable); Assigned
Total	10.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into account the extensive experience of Mittal Life Style Limited's (MLSL) promoters in the textile industry, which has ensured repeat orders from the large and diversified customer base resulting in steady growth in the operating income (OI), at a CAGR of 23%, during the past five years. The rating draws comfort from its comfortable capital structure due to moderate total net worth (TNW) base, which was strengthened by equity infusion by the promoters in 2018. With moderate borrowings, the company reported a gearing of 0.5 times and total outside liabilities (TOL) /TNW of 1.0 times as on March 31, 2019 (0.5 times and 1.2 times, respectively, as on January 31, 2020 as per the provisional financial statements).

The rating is, however, constrained by MLSL's declining operating profitability in the recent past with operating margins reducing to 2.4% in 10M FY2020 from 3.9% in FY2018, due to limited pricing flexibility from its established and large suppliers, amid the inherent low value-additive trading business. Further, the high supplier concentration risk limits its bargaining power, with the top ten suppliers accounting for more than 90% of the company's total purchases during the past three years. ICRA notes the intense competition in the textile industry due to the presence of several organised as well as unorganised players, which limits MLSL's pricing flexibility.

The Stable outlook on the rating reflects ICRA's opinion that MLSL will continue to benefit from its established track record of operations and its conservative capital structure.

Key rating drivers and their description

Credit strengths

Established track record and extensive experience of promoters in textile trading business – MLSL's promoters have been involved in the textile industry for one and a half decades. The extensive experience and expertise of the promoters have ensured established relationship with the suppliers and the customers.

Diversified customer profile with long-term relationship ensures repeat orders and steady revenue growth – MLSL sells a wide range of denim fabric to a large number of diversified denim apparel manufactures in and around Mumbai and Ulhasnagar (Maharashtra), with long-term relationship with most of these companies. This has resulted in a steady revenue growth, at a CAGR of 23%, during the past five years to Rs. 91.8 crore in FY2019 from Rs. 32.3 crore in FY2014. The company enjoys low customer concentration risk with its top ten customers accounting for 18-23% of the total sales in FY2018, FY2019 and 10M FY2020.

Comfortable capital structure due to moderate net worth base supported by equity infusion in FY2018 – The company has a moderate net worth base supported by equity infusion in March 2018 leading to comfortable capital structure as indicated by gearing of 0.5 times and TOL /TNW of 1.0 times as on March 31, 2019 (0.5 times and 1.2 times, respectively, as on January 31, 2020 as per the provisional financial statements). As on March 31, 2019, MLSS had moderate debt level comprising unsecured loans from related parties (Rs. 3.8 crore) and working capital borrowings (Rs. 1.9 crore). ICRA notes that since the company has repaid the unsecured debt in the current year, the funding requirements are expected to be met through additional external working capital borrowings going forward. Its coverage indicators remained moderate during this period with interest coverage of 4.5 times and TD/ OPBITDA of 2.0 times as on March 31, 2019 (4.9 times and 2.8 times, respectively, as on January 31, 2020 as per the provisional financial statements).

Credit challenges

Decline in operating profitability, weak profit margins due to low value addition and limited pricing flexibility – MLSS operated in textile trading industry, which is characterised by low profitability due to the low value-additive nature of business and limited pricing flexibility. This along with increased purchases from established and large suppliers resulted in limited bargaining power, increasing the purchasing cost of traded goods. As a result, its operating profitability decreased in the recent past to 2.4% in 10M FY2020 from 3.9% in FY2018.

High supplier concentration risk restricting bargaining power – MLSS procures the entire range of traded denim fabrics from textile mills based out of Gujarat, primarily Ahmedabad. High supplier concentration risk with the top ten suppliers accounted for more than 90% of the total purchases in FY2018, FY2019 and 10M FY2020, resulting in a short credit period from the suppliers, given its moderate scale of operations and low bargaining power in the industry against the large and established suppliers.

Profitability vulnerable to intense competition in textile trading industry limiting pricing flexibility – The textile trading industry witnesses stiff competition due to low entry barriers. This restricts the pricing flexibility of the players operating in the industry. The industry is also highly fragmented, which limits the bargaining power. Considering the trading nature of activities where value addition is inherently limited, the margins of MLSS remain thin as depicted by the low operating margin and net margin of 3.1% and 1.6%, respectively, in FY2019.

Liquidity position: Stretched

MLSS's liquidity is **stretched** with minimal cash flow from operations of Rs. 0.4 crore due to low operating profitability and incremental working capital requirements in FY2019. Further the company had low free cash available as on March 31, 2019. MLSS had limited buffer of Rs. 2.4 crore in the form of undrawn limits on its existing working capital limits, and the unsecured loans on books have been repaid in the current year. The company, however, does not have any outstanding external term loans as on January 31, 2020. or any capital expenditure plan in the near to medium term.

Rating sensitivities

Positive triggers – ICRA is likely to upgrade MLSS's rating if the company's scale of operations grows while improving profitability on a sustained basis, thereby strengthening the net worth and improving liquidity.

Negative triggers – Negative pressure on MLSS's rating could arise if there is a decline in scale of operations with lower profitability, along with stretch in debtor days resulting in increase in working capital intensity and worsening of liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Trading Companies
Parent/Group Support	NA

About the company

Established in 2005 by the Mittal family, MLSL is involved in trading of denim fabric. The company was listed under SME platform of National Stock Exchange (NSE) in 2018. J. K. Denim Fab Private Limited, the largest shareholder (33%) of MLSL, is involved in similar line of business and is a closely-held private company by the Mittal family through Mr. Brijesh Kumar Mittal, Mr. Pratik Brijesh Kumar Mittal and Mrs. Sudha Brijesh Kumar Mittal, who are also the shareholders and directors of MLSL. The company procures denim fabric primarily from Ahmedabad (Gujarat) and sells it in Mumbai and Ulhasnagar (Maharashtra). It has a registered office in Mumbai.

In FY2019, the company reported a net profit of Rs. 1.5 crore on an OI of Rs. 91.8 crore compared to a net profit of Rs. 1.3 crore on an OI of Rs. 82.5 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	82.5	91.8
PAT (Rs. crore)	1.3	1.5
OPBDIT/OI (%)	3.9%	3.1%
RoCE (%)	18.0%	14.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.0
Total Debt/OPBDIT (times)	2.9	2.0
Interest Coverage (times)	4.2	4.5
DSCR	3.0	3.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					27-Mar-2020			
1	Cash Credit	Long Term	4.40	-	[ICRA]BB(Stable)	-	-	-
2	Unallocated	Long Term	5.60	-	[ICRA]BB(Stable)	-	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.40	[ICRA]BB(Stable)
NA	Unallocated	NA	NA	NA	5.60	[ICRA]BB(Stable)

Source: Mittal Life Style Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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