



## Rating Rationale

Morarjee Textiles Limited

21 Feb 2019

**Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 457.00 Crores of Morarjee Textiles Limited.**

### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (January,2018)	Present
Fund Based	447.00	406.00	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook:Stable	BWR BBB (Pronounced as BWR Triple B) Outlook:Stable (Downgraded)
	27.00	27.00	Short Term	BWR A3+ (Pronounced as BWR A Three Plus)	BWR A3 (Pronounced as BWR A Three) (Downgraded)
Non Fund Based	24.00	24.00	Short Term	BWR A3+ (Pronounced as BWR A Three Plus)	BWR A3 (Pronounced as BWR A Three) (Downgraded)
<b>Total</b>	<b>498.00</b>	<b>457.00</b>	<b>INR Four Hundred &amp; Fifty Seven Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

### Ratings: Downgraded

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Audited financials from FY16 to FY18 and provisional financials of Q3FY19 project financials up to FY20 of Morarjee Textiles Limited (MTL), publicly available information and information / clarification provided by the Company's management.



The rating revision reflects business & financials performance of MTL Y-o-Y, reduced profitability in FY18 & Q3FY19, deteriorating coverage indicators Y-o-Y and stretched liquidity position of the company as on December 2018.

The rating continues to derive comfort from promoter's experience in textile industry, long standing relations with its customers, promoter's ability to infuse funds as per business requirement, strong group reputation, and integrated manufacturing facilities with strong position in niche premium products.

### Description of Key Rating Drivers

- **Credit Strengths:**
- **Strong Promoters and experience management:** Morarjee Textiles Ltd, belongs to the Ashok Piramal group, a diversified and leading business group in India, having interest in real estate, textiles & engineering.. The group has long established position in textile industry. MTL is a public listed company, with promoters and promoter group companies holding 59.17% of the shares. Ms. Urvi Piramal is Chairman, Mr. Harshvardhan A. Piramal Executive Vice Chairman, Mahesh Gupta Non Executive Director and Mr. R. K. Rewari Managing Director of the company. There are 4 Independent Directors in the Board. The company has the benefit of professionals in different areas like manufacturing, marketing and finance.
- **Established position in niche premium products:** MTL is one of the largest suppliers of Guthra (Arab headgear). MTL is a leading player in the premium and high-end shirting fabric business. Some of MTL's global clients/brands include Marco Polo, Daniel Hechter, Robert Talbott, Zara, Prada, Emporio Armani, Hugo Boss, Paul Smith, Givenchy, United Colors of Benetton, etc. Its customer base is spread across 20 countries around the globe. MTL also offers premium cotton shirting fabrics to domestic brands such as "Louis Philippe", "Van Heusen" and "Zodiac".
- **Integrated Plant:** The Company undertook backward integration project to integrate the manufacturing processes and to reduce dependence on vendors of yarn and weaved fabric. The expansion of the Project was intended to replace the outsourcing of raw materials (yarn) and enable the Company to achieve higher levels of integration of Spinning, Weaving and Printing activities and thereby improve the margins. As on 31<sup>st</sup> March 2018, the installed capacity of the plant for spinning, weaving, printing & processing stood at 3966 MT, 256MT & 326 MT.
- **Credit Weakness:**
- **Reduced turnover Y-o-Y:** In FY18, MTL achieved TOI of Rs. 360.96 Crores as against TOI of Rs. 377.04 Crores in FY17. The TOI was affected on account of subdued demand from end customers & other geopolitical tensions in African markets where MTL is exporting its finished goods.
- **Deteriorating profit margins:** Net profit margins of the company were greatly impacted in FY18 & till Q3FY19 on account of reduced exports to African markets due to geopolitical



scenarios, muted demand from premium clothing brands which resulted in lesser capacity utilization of the plant to produce printed & processed fabrics where profit margins were high. Net profit margin was at 0.13% in FY18 as compared to 3.19% in FY17. The company reported net loss of Rs. 20.84 Crores in Q3FY19.

- **Deteriorating coverage indicators:** ISCR & DSCR of the company stood at 1.34x & 0.83x in FY18 as compared to 1.57x & 1.40x in FY17 respectively. As per the management, corrective action has been taken to improve the profitability of the business which is likely to yield results by September 2019. However debt repayment risk is partly mitigated as the company is expecting to receive Rs. 27.66 Crores of TUF subsidy by September 2019 which will ease concerns over the repayment ability of the company in the near term. The company's promoters are ensuring that necessary funds are made available to meet any shortfall in servicing of debt obligations.

### **Analytical Approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Outlook: Stable**

BWR believes the **Morarjee Textiles Limited** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down, profit margins show lower than expected figures and interest & capital subsidy is not received on time.

### **About the Company**

Morarjee Textiles Ltd., belongs to the Ashok Piramal group, a diversified and leading business group in India, having interest in real estate, textiles & engineering. MTL was incorporated on July 14, 1995 as Morarjee Brembana Pvt Ltd. It got converted into a public limited company in 1996. In 2005, its name was changed to Morarjee Textiles Ltd. Initially, textiles business was undertaken by Morarjee Goculdas Spinning & Weaving Co. Ltd. which was established in 1871, and later it was spun off and became part of Morarjee Brembana Pvt Ltd. The company has integrated manufacturing plant in Nagpur. MTL's fabric segment has two divisions—the shirting division and the printed fabric division (for voile, satin, poplin and other high-end products).

The Company has completed backward integration project to integrate the manufacturing processes and to reduce dependence on vendors of yarn and weaved fabric. The expansion Project is intended to replace the outsourcing of raw materials (yarn) and enable the Company to achieve higher levels of integration of Spinning, Weaving and Printing activities and thereby improve the margins.

### **Company Financial Performance**

In FY18, MTL achieved TOI of Rs. 360.96 Cr as against TOI of Rs. 377.04 Cr in FY17. Out of the total revenue, MTL earned Rs. 251 Cr (70%) from domestic sales & Rs. 110 Cr (30%) from export sales. The company earned revenue through sale of shirting fabric, printed fabric &



voiles. EBITDA was at Rs. 68.67 Cr in FY18 as compared to Rs. 61.87 Cr in FY17. PAT was at Rs. 0.46 Cr as compared to Rs.12.03 Cr in the previous year. As of Q3FY19, MTL achieved TOI of Rs. 254.02 Cr, EBITDA of Rs. 28.07 Cr & Net Loss of Rs. 20.84 Cr.

### Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2019)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	23 January 2018	2016	Date, Month, Year
	<b>Fund Based</b>						
1.	<b>Term Loan</b>	Long Term	310.00	<b>BWR BBB (Pronounced as BWR Triple B) Outlook: Stable (Downgraded)</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>
2.	<b>Cash Credit</b>	Long Term	96.00	<b>BWR BBB (Pronounced as BWR Triple B) Outlook: Stable (Downgraded)</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable</b>
3.	<b>PCFC</b>	Short Term	27.00	<b>BWR BBB (Pronounced as BWR Triple B) (Downgraded)</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus)</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus)</b>	<b>BWR BBB+ (Pronounced as BWR Triple B Plus)</b>
	<b>Non Fund Based</b>						
4.	<b>Letter of Credit /Bank Guarantee</b>	Short Term	24.00	<b>BWR A3 (Pronounced as</b>	<b>BWR A3+ (Pronounc</b>	<b>BWR A3+ (Pronounc</b>	<b>BWR A3+ (Pronounc</b>



				BWR A Three) (Downgraded)	ed as BWR A Three Plus)	ed as BWR A Three Plus)	ed as BWR A Three Plus)
	<b>Total</b>		457.00	<b>₹ Four Hundred &amp; Fifty Seven Crores Only</b>			

### Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Total Operating Income	Rs. Crore	360.96	377.04
EBITDA	Rs. Crore	68.67	61.87
PAT	Rs. Crore	0.46	12.03
Tangible Net worth	Rs. Crore	105.90	111.68
Total Debt/Tangible Net worth	Times	4.92	4.48
Current Ratio	Times	0.98	0.75

### Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**Note on complexity levels of the rated instrument:**

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**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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