No. CARE/DRO/RL/2022-23/1594

Shri Atul Kumar Jain
Chief Financial Officer
Maral Overseas Limited
Maral Sarovar, V & P.O. Khalbujurg,
Tehsil Khasrawad, District: Khargone
Madhya Pradesh 451660

July 29, 2022

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY22 (Audited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	257.18 (Enhanced from 141.46)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	223.00 (Enhanced from 203.00)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	480.18 (Rs. Four Hundred Eighty Crore and Eighteen Lakhs Only)		

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 30, 2022, we will proceed on the basis that you have no any comments to offer.

4. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

6. Our ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.

9. CARE Ratings Ltd. ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Rajan Sukhija
Lead Analyst
Rajan.Sukhija@careedge.in

Sachin Mathur
Assistant Director
sachin.mathur@careedge.in

Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure 1

Details of Rated Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	State Bank of India	52.00	To repaid in 26 Quarterly Installments of ending May 2030
2.	Export Import Bank of India	22.00	To be repaid in 15 Quarterly Instalments ending March 2026
3.	State Bank of India	17.30	In 42 Monthly Equal Installments starting July 2022
4.	State Bank of India	8.65	In 48 Monthly Equal Instalments starting December 2023
5.	Bank of Baroda	7.28	To be repaid in 26 Quarterly installments ending June 2029
6.	Export Import Bank of India	6.74	In 47 Monthly Equal Installments starting July 2022
7.	Bank of Baroda	6.72	To be repaid in 28 Quarterly installments ending June 2029
8.	Union Bank of India	4.30	In 48 Monthly Equal Installments starting August 2022
9.	Central Bank of India	4.23	In 47 Monthly Equal Installments starting July 2022
10.	Bank of Baroda	4.22	In 45 Monthly Equal Installments starting July 2022
11.	Export Import Bank of India	3.37	In 48 Monthly Equal Installments starting July 2024
12.	United Bank of India	2.15	In 48 Monthly Equal Installments starting March 2024
13.	Central Bank of India	2.11	In 48 Monthly Equal instalments starting June 2024
14.	Bank of Baroda	2.11	
15.	Canara Bank	1.74	In 46 Monthly Equal Installments starting July 2022
16.	Canara Bank	0.87	In 48 Monthly Equal instalments starting March 2024
17.	Central Bank of India	0.82	To be repaid in September 2022
18.	Bank of Baroda	0.12	To be repaid on 31.07.2022
19.	Canara Bank	0.06	
20.	Proposed	110.39	-
	Total	**257.18**	

Total Long-Term Facilities: Rs.257.18 crore

2. Short Term Facilities

2.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	101.18
2.	Bank of Baroda	30.00
3.	Central Bank of India	27.16
4.	Union Bank of India	21.03
5.	Canara Bank	15.63
	Total	**195.00**

2.B. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	State Bank of India	14.20
2.	Bank of Baroda	5.48
3.	Canara Bank	2.05
4.	Central Bank of India	0.40
5.	Union Bank of India	0.40
6.	Proposed	5.47
	Total	**28.00**

Total Short-Term Facilities: Rs.223.00 crore

Total Facilities (1. A+2.A+2.B): Rs.480.18 crore

E-1, 13th Floor, Videocon Tower, Jhandewalan Extension, New Delhi – 110055
Phone: +91-011-4533 3200 / 238

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone: +91-22-6754 3456
Email: care@careedge.in • www.careedge.in

CIN-L67190MH1993PLC071691

Annexure-2
Press release

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[2]	Rating Action
Long Term Bank Facilities	257.18 (Enhanced from 141.46)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities	223.00 (Enhanced from 203.00)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**480.18 (₹ Four Hundred Eighty Crore and Eighteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Maral Overseas Limited (MOL) factor in improvement in operational performance of company marked by better profitability margins supported by demand-supply gap in the textile industry leading to healthy realizations and improved financial risk profile characterized by improvement in overall gearing and other debt coverage metrics. Further, the ratings continue to derive strength from its strong parentage, experienced promoters and management team, its diversified product profile and established marketing tie-ups with leading apparel brands. The ratings are, further strengthened by the geographically distributed operations of the company with low customer concentration risk. The ratings are constrained by continuation of MOL under the ambit of Corporate Debt Restructuring (CDR) forum and susceptibility of its profitability margins to volatility in raw material prices, foreign exchange fluctuations risk and its presence in highly competitive market.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in total operating income of company to Rs. 1500 crores with sustainable profitability margins.
- Overall gearing of less than 1.25x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in capital structure with overall gearing of more than 2x.
- Lower than envisaged cash accruals adversely impacting the liquidity of the company

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Improvement in operational performance and financial risk profile: During FY22 (refers to the period April 1, 2021 to March 31, 2022), MOL reported total operating income of Rs. 1092.61 crore as compared to total operating income of Rs.634.19 crore in FY21, registering y-o-y increase of around 72% on account of increase in export sales as well as domestic sales on the back of post covid recovery in demand coupled with better sales realisations due to increase in cotton and yarn prices. Further, PBILDT margin of company have improved significantly to 11.67% in FY22 as compared to 8.81% in FY21 owing to improved sales realisations in yarn segment. Further, the garment division of the company was loss making till FY20, however, during FY21, management of company took various measures to increase its productivity along with increase in customer base which resulted in improved profitability. Further, the company expanded its garment manufacturing units and started new garment manufacturing units during FY22 which further aided the growth in total operating income of the company. The capital structure of the company has improved with overall gearing of 1.57x as on March 31, 2022, from 2.43x as on March 31, 2021, on account of improvement in net worth with accretion of profits. During FY22, debt coverage indicators like PBILDT Interest coverage and Total debt/GCA also improved to 6.06x and 2.80x respectively (PY: 3.38x and 5.79x respectively). The improvement in debt coverage indicators was primarily due to better profitability during FY22.

Experienced promoters with qualified management team and strong parentage: MOL is a part of LNJ Bhilwara group, which was established in 1960 by Mr. L N Jhunjhunwala. The group is a well-diversified conglomerate with interests in textiles,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

graphite electrodes, power generation & power engineering consultancy services and IT enabled services. LNJ Bhilwara group has its presence in the entire textile value chain from textile yarns to fabrics, knitwear and denims through its group companies namely BMD Pvt. Ltd. (rated CARE A-; Stable/CARE A2+), Maral Overseas Limited, RSWM Limited and BSL Limited. The production units and corporate offices of the Group are spread over 38 locations in India, and the Group employs more than 26,000 people.
MOL is currently headed by Mr. Shekhar Agarwal (Chairman and Managing Director) who did his B.Tech. (Mechanical Engineering) from IIT, Kanpur in 1975 and Master of Science in Industrial & Systems Engineering in 1976 from Illinois Institute of Technology, Chicago, USA. He has an experience of more than three decades in this line of business. He is well assisted by a qualified management team having functional experience in related areas.

Diversified product profile and established marketing tie-ups with leading apparel brands: MOL is engaged in manufacturing of cotton yarn, knitted fabrics, processed fabrics and ready-made garments and has presence throughout the textile value chain. The company also owns a fully- integrated dye house plant with latest technology having facility for dying of yarn. During FY22, MOL derived around 43% (PY: 43%) of its total operating income (TOI) from yarn, around 30% (PY: 31%) from fabrics, around 18% (PY: 17%) from garments, around 5% (PY: 6%) of its TOI from cotton and other waste and remaining 4% of its TOI from sale of scrap, export incentives, forex gain, job work etc. The company sells its products in both domestic as well as export market and apart from this a significant portion of the cotton yarn and fabrics manufactured by the company are also used in-house to manufacture fabric and garments which provides better control on the quality of the finished garment. Further, the customer base of MOL is diversified, primarily due to its varied product profile. Being in operations since the last two decades, MOL has established tie-ups with various agents and strong apparel brands like M/s Cecil (Germany), M/s Schiesser (Germany), M/s Joy Sportwear (Germany), M/s Blair (USA), M/s. RNA Resources (Dubai), M/s Reitman (Canada), M/s Marubeni (Japan) etc.

Geographically diversified operations and low customer concentration risk: Being an export-oriented unit, the company derived almost half of its revenue from the export markets. The company exports its products majorly to Far East & Southeast Asian Countries, Europe, North America, Gulf and Middle East, Africa etc. Furthermore, there is low customer concentration risk as the company caters to a large customer base present across the globe.

Key rating weaknesses
Susceptibility of profitability margins to volatility in the raw material prices: The basic raw material consumed by MOL to produce yarn is cotton. Cotton prices, which are dependent on the government policies, effect of monsoon, etc. have been highly volatile in the past few years. Furthermore, yarn being a commodity, its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of MOL's fabric and garment verticals.

Exposure to foreign currency fluctuation risk: MOL is exposed to foreign currency fluctuation risk as the company derives significant portion of its revenue from the export market. Thus, profitability margins of the company remain susceptible to any adverse movement in the foreign currency. The company also imports raw materials which provide the natural hedge to company to some extent. Further, the company hedges the balance forex risk through forward contracts (generally almost 100% of foreign currency exposure is hedged by the company), which mitigates the risk to some extent.

High competition in the garment segment from other export-based countries: In the garment segment, the company faces major competition from China, Bangladesh and other cheap export-based countries which sell garments at lower rates compared to India. Domestic competition has been growing in the garment segment with the international brands entering India. Moreover, the exporters affected by the slowdown in exports are diverting their capacity to the domestic market, thereby increasing competition, and affecting margins.

Industry prospects
With structural shift in the international markets for specialty cotton-based yarns following the decision of the US to impose sanctions on Xinjiang- derived cotton exports from China, its likely to widen the export opportunity from India. China's specialty yarn exports are estimated to be ~200 billion dollars, the corresponding figure from India is a tenth of this figure. Even a 10 percent shift in exports from China to India could virtually double India's export of Specialty yarns.

Liquidity: Adequate
The company reported positive cash flow from operations during FY22 of Rs. 33.39 crore as against Rs. 31.14 crore during FY21. The current portion of long-term debt is Rs. 23.72 crores (scheduled repayment of term loans from banks) against

projected gross cash accrual of ~Rs. 95 cr. In FY23. During FY22, average working capital cycle of company stood at 62 days (PY: 78 days). The working capital cycle of the company remains modest on account of slightly high inventory days as company's major raw material cotton is cyclic in nature and the company has to maintain sufficient level of inventory for the entire period. Average inventory period for MOL has remained in the range of 50-65 days on account of MOL's policy to store good quality cotton which is usually available during the period October- April. Further, around 45-50% of sales of MOL is overseas sales, out of which company receives 30% of its sales in advance and balance 70 days at sight terms (between 25-30 days) and around 90% of its overseas creditors are LC backed in nature. For domestic sales, the company provides credit terms of 30 to 45 days. Further, company plans to modernize/ upgrade its existing infrastructure at Sarovar unit with setting up of new garment manufacturing unit during FY23 and setting up of an additional spinning unit for Melange Fabric during FY24. Total estimated project cost is around Rs. 229 crores which will be funded using a mix of internal accruals and term loans from banks.

Analytical approach: Standalone

Applicable criteria:
CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector
CARE's methodology for Cotton Textile
CARE's methodology for Liquidity analysis (Non-Financial Sector)

About the company
Incorporated in 1989, MOL is a part of LNJ Bhilwara group. The company commenced production in 1992, with setting up of a 20,160 spindles cotton spinning plant for manufacturing of yarn which has increased over the years to 79,056 spindles. The company is engaged in the manufacturing of grey yarn (19,100 MTPA), dyed yarn (4,000 MTPA), knitted fabrics (6,500 MTPA), processed fabrics (7,200 MTPA) and ready-made garments (72 lac pieces per annum) with its manufacturing facilities located in Noida (U.P) and Khargone (M.P.). MOL had approached the CDR forum in July 2008 and the restructuring proposal / package was approved on March 26, 2009. Since then, MOL continues to service its debt as per the CDR terms.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY22
Total operating income	634.19	1,092.61	NA
PBILDT	55.90	127.51	NA
PAT	12.53	66.98	NA
Overall gearing (times)	2.43	1.57	NA
Interest coverage (times)	3.38	6.06	NA

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	May 2030	257.18	CARE BBB+; Stable
Fund-based-Short Term		-	-	-	195.00	CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	28.00	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	257.18	CARE BBB+; Stable	-	1)CARE BBB; Stable (27-Oct-21)	1)CARE BBB-; Negative (06-Oct-20) 2)CARE BBB-; Stable (30-Jun-20)	1)CARE BBB; Stable (09-Sep-19)
2	Fund-based-Short Term	ST	195.00	CARE A3+	-	1)CARE A3 (27-Oct-21)	1)CARE A3 (06-Oct-20) 2)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)
3	Non-fund-based - ST-BG/LC	ST	28.00	CARE A3+	-	1)CARE A3 (27-Oct-21)	1)CARE A3 (06-Oct-20) 2)CARE A3 (30-Jun-20)	1)CARE A3+ (09-Sep-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-Short Term	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Sachin Mathur
Phone: +91-11-4533 3206
E-mail: sachin.mathur@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

About us:
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