

Press Release

Textrade International Limited

03 May, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 225.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.225.00 crore bank facilities of Textrade International Limited (TIL). The outlook is '**Stable**'.

Textrade International Limited (TIL) was incorporated in 2004 to take over the existing partnership firm which was established in 1984 by Mr. Bipin Doshi and Mr. Anish Doshi. The company is engaged in manufacturing of home textile products. The manufacturing unit is located in Surat (Gujarat). There are two more group companies apart from TIL viz. Textrade Inc. (WI) and Worldtex Manufacturing Private Limited (WMPL). TIL supplies mainly to USA and European market to customers including IKEA, Wal-Mart, Kidcampers LLC, and Kohl's amongst others.

Analytical approach

SMERA has consolidated the business and financial risk profiles of TIL and WMPL together referred to as the 'Textrade Group' (TG) to arrive at the rating. The consolidation is in view of operational and financial synergies and common management.

Key rating drivers

Strengths

Established track record of operations and experienced management:

TIL has an established operational track record of three decades which has helped develop and maintain long standing relations with customers and suppliers. The company also benefits from its experienced promoters, who possess around three decades of experience in the home textile business.

Comfortable financial risk profile:

The financial risk profile is marked by healthy network, modest gearing and comfortable debt coverage indicators. The net worth stood at around Rs.100.20 crore as on 31 March, 2017 as against Rs.96.01 crore as on 31 March, 2016. The overall gearing remained modest during the period under study, with gearing of around 1.78 times as on 31 March, 2017 as against 1.66 times as on 31 March, 2016. The total debt of Rs.178.83 crore consists of term

loan of Rs.20.98 crore, unsecured loan of Rs.2.34 crore and working capital funds of Rs.155.51 crore. The Interest Coverage Ratio and DSCR stood at 1.57 times and 1.52 times for FY2017, respectively. The Net cash Accruals to Total Debt (NCA/TD) stood at 0.06 times in FY2017 and 0.05 times in FY2016. The net cash accruals stood at Rs.9.85 crore as against repayment obligation of Rs.3.86 crore in FY2017.

Going forward, SMERA expects the group to maintain its financial risk profile and improve the networth in the absence of a major debt funded capex plan.

Steady growth in revenue and profitability:

The group has generated revenue of Rs.363.74 crore in FY2017 as against Rs.354.57 crore in FY2016. Further, it has achieved gross revenue of Rs.294.79 crore from April to December, 2017 (Provisional). The operating margins have remained in the range of 12 percent to 13 percent in the past three years ended FY2017. The operating margins improved in FY2017 to 12.94 percent as compared to 12.70 percent in FY2016.

Weaknesses**Customer concentration risk:**

IKEA is the major customer of TIL since almost two decades. IKEA contributed to 46.62 percent of TIL's revenues in FY2017. Further, the top 10 customers contributed 80 percent of revenue in FY2017 in spite of a wide customer base.

Working capital intensive nature of operations and stretched liquidity:

The operations are working capital intensive evident from the Gross Current Assets (GCA) days of 293 in FY2017 as against 259 in FY2016. This is majorly on account of stretched debtor days of 95 in FY2017 as against 68 in FY2016. The bank limit is fully utilised for the last six months ended February, 2018.

Intense competition in the textile industry:

The group is exposed to intense competition prevalent in the highly fragmented Indian textile industry. The group faces stiff competition from domestic players like Trident Limited, Welspun India Limited, and T C Terrytex Limited among others. Further, competition from countries like China, Pakistan and Turkey is intense in the home textile segment. The group faces stiff competition in both domestic and overseas market from other up and coming nations which attract more business because of their lower production costs, ease-of-doing business and availability of cheap labour.

Susceptible to volatility in raw material prices:

The main raw material purchased by the company is cotton and polyester fabric. Hence, the margins are susceptible to changes in cotton and polyester yarn prices. Cotton being an agricultural commodity, the availability and price of the same is highly dependent on agro-climatic conditions. The price of cotton is stated by government through Minimum Support Price (MSP). However, the purchase price depends on the prevailing demand-supply situation which limits bargaining power with the suppliers as well. Any adverse movement of cotton prices further impacts the profitability. Further, the prices of polyester yarn are linked to crude oil price movement. The material cost is 75.29 percent of total operating income in FY2017 and

77.08 percent in FY2016. The EBITDA margin stood at 12.94 percent in FY2017 as against 12.70 percent in the previous year.

SMERA believes that the group should be able to maintain its operating profitability around existing levels notwithstanding the volatility in prices of its key inputs, on the back of its established position in the overseas markets.

Outlook – Stable

SMERA believes that the outlook will remain ‘Stable’ over the medium term on account of the promoters’ extensive experience and established presence in the textile industry. The outlook may be revised to ‘Positive’ in case of significant growth in the revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to ‘Negative’ in case of lower than expected net cash accruals or lengthening of the working capital cycle, thereby resulting in deterioration in the financial risk profile or debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	363.74	354.57	320.04
EBITDA	Rs. Cr.	47.06	45.04	38.77
PAT	Rs. Cr.	4.17	2.65	2.78
EBITDA Margin	(%)	12.94	12.70	12.11
PAT Margin	(%)	1.15	0.75	0.87
ROCE	(%)	9.66	9.52	18.07
Total Debt/Tangible Net Worth	Times	1.78	1.66	1.47
PBDIT/Interest	Times	1.57	1.52	1.62
Total Debt/PBDIT	Times	5.68	5.52	4.91
Gross Current Assets (Days)	Days	293	259	250

Status of non-cooperation with previous CRA (if applicable):

CARE Ratings in its press release dated April 05, 2018 inter alia has stated the following “CARE has been seeking information from Textrade International Ltd (TIL) to monitor the ratings vide e-mail communications/letters dated January, 04, 2018, February 02, 2018, February 16, 2018, February 21, 2018, February 21, 2018, March 06, 2018, March 13, 2018 and March 20, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE’s opinion is not sufficient to arrive at a fair rating. The rating on Textrade International Ltd.’s bank facilities will now be denoted as CARE BB+/CARE A4+; ISSUER NOT COOPERATING.”

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	43.80	SMERA BBB-/ Stable (Assigned)
Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	25.80	SMERA BBB-/ Stable (Assigned)
Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	29.00	SMERA BBB-/ Stable (Assigned)
Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	24.00	SMERA BBB-/ Stable (Assigned)
Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	14.50	SMERA BBB-/ Stable (Assigned)
Proposed Pre-Shipment/ Post-Shipment	Not Applicable	Not Applicable	Not Applicable	12.90	SMERA BBB-/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	15.60	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.00	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.50	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.60	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA A3 (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A3 (Assigned)
Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.80	SMERA A3 (Assigned)

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ABOUT SMERA

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