Press Release

TRK Textiles India Private Limited

September 05, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 crore
Long Term Rating	ACUITE BB/ Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long term rating of **'ACUITE BB' (read as ACUITE double B)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.50.00 crore bank facilities of TRK Textiles India Private Limited (TRK). The outlook is **'Stable'.**

Established in 2006 and based in Tiruppur (Tamil Nadu), TRK is managed by Mr. Saravan S. TRK has an installed capacity of 18,000 spindles and manufactures 100 percent cotton combed yarn of count 20's to 44's. It also has an installed capacity of knitting fabric of 2 tonnes per day (TPD) and a wind mill of one Mega Watt (MW) for captive consumption.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of TRK to arrive at this rating.

Key Rating Drivers

Strengths:

- **Experienced management and established track record of operations**
  TRK is managed by Mr. Saravan S with around two decades of experience in the textile industry. Mr. Rangasamy is the other key Director and also the Chairman. He has around four decades of experience through his associate entity named 'CBC Fashions Asia P Ltd' which is into export of readymade garments. The company was incorporated in 2006 and commenced production in 2009-10, initially with an installed capacity of 12,000 spindles which was gradually expanded to the present total capacity of 18,000 spindles. The promoter's experience in textile industry has helped the company to build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. It has gradually moved from manufacturing of 100 percent cotton yarn to 100 percent combed cotton yarn over the years along with set up of knitting machine to supply knitted fabric. Despite the volatility in cotton prices and cotton yarn and increasing competition, the company's scale of operations remain moderate at Rs.81.73 crore by depending on both – cotton yarn and fabric. TRK has booked revenues of Rs.35.69 crore as on August 20, 2018 and Rs.24.13 crore in Q1FY19. Acuité believes that promoter's extensive experience in textile industry would aid the business risk profile of the company over the medium term.

- **Moderate financial risk profile**
  TRK's financial risk profile is marked by moderate debt protection metrics and capital structure. The gearing is moderate at 1.70 times as on March, 2018 (Provisional) against 1.48 times in FY2017. Net worth is moderate at Rs.26.76 crore as on March, 2018 (Provisional) vis-à-vis Rs.26.71 crore as on 31 March, 2017. Stagnant net worth over the years is due to high depreciation charge being adopted

by the management, and continuous capex for addition of knitting machines and captive power, to balance the revenue mix, insulate from the price volatility of yarn and savings in power costs. The low profitability and continuous capex has partly impacted the debt protection metrics of net cash accruals to total debt (NCA/TD) at 0.13 times and interest coverage ratio is moderate at 2.66 times in FY2018. However, the same are an improvement over 0.09 times and 2.05 times respectively in FY2017. Acuité believes with profitability to remain stagnant owing to high depreciation charge, moderate capex, and reliance on bank lines to remain moderately high, the financial risk profile is expected to remain moderate over the medium term.

- **Benefit of captive Power plant and further expansion by setting up of 2.5 MW solar power plant**
  TRK has a captive wind mill of 1 MW. The power plant has been supporting about 20 percent to its power requirement which translates to savings of around Rs.2-3 crore per annum. TRK requires 5MW of captive power plant to meet its power requirement. It is setting up a solar power plant of 2.5 MW with project cost of Rs.10.00 crore in FY19; to be funded through term loan of Rs.5-6 crore and remaining through internal accruals and unsecured loans. The unit is expected to be operational by around Q4FY19. Acuité believes that expansion would lead to further saving of power up to Rs.3.0 – 4.0 crore over the medium term thereby, aiding its business risk profile.

- **Fund support from promoters**
  Promoters have infused Rs.4.21 crore in FY2018 to support working capital cycle despite having adequate cushion in bank lines. This is to rely less on external debt and reduce interest outgo. Till August 20, 2018, it has further infused Rs.1.8 crore as USL and further Rs.3.00 crore is expected to be added in FY2019. This would be to support the capex for solar power plant and knitting machine. These have been treated as debt, but are non-interest bearing and not subordinated to bank debt.

Weaknesses:

- **Working capital intensive nature of operations**
  TRK's operations are working capital intensive with Gross Current Assets (GCA) of about 288 days in FY2018 (Provisional). The cotton industry is marked by high inventory holding levels. Cotton is generally procured during the season beginning from October to March to sustain the raw material requirement for upcoming 3-6 months until the start of the next season; it is reflective in terms of its inventory days of 55-111 days over the last three years ending March, 2018 (Provisional). TRK procures cotton in February and March of every year, basis the price movement and availability of cotton overall for domestic use. TRK sells to small garment manufacturers, traders and dealers across Tamil Nadu against credit period of around 90-120 days. No particular customer contributes more than 5-10 percent to the revenue, thereby leading to low customer concentration risk and healthy receivable cycle. TRK procures from ginners, farmers and traders against letter of credit (LC) of 90-120 days as well as open credit of 21-30 days. Acuité believes that inventory risk and debtor risk is high as it holds inventory for the 3-6 months, thereby exposing TRK to the risk of negative impact in its operating margins in case of any significant fall in cotton prices.

- **Stagnant topline; remains moderate**
  TRK's revenue remained stagnant over the last three years at Rs.81.73 crore (Provisional), Rs.83.79 crore and Rs.80.56 crore in FY18, FY17 and FY16, respectively due to capacity being already utilised at optimum levels. Despite increasing cotton prices and lower yarn realisations, TRK has been able to sustain the scale by selling more of knitted fabric by using its captive yarn. Acuité believes that revenue growth would continue to remain modest over the medium term until any modernisation or enhancement in capacity is undertaken.

- **Volatile EBITDA margins; Margins susceptible to volatility in raw material prices**
  EBITDA margins have been volatile over the last three years in the range of 5.69 percent to 15.17 percent ending FY18 (Provisional). This is due to sharp increase in cotton prices and lower realisations of cotton yarn and change in revenue mix. Raw cotton prices are highly volatile in nature and depend largely on factors like area under cultivation, monsoon, crop yield, international demand-supply and pricing and inventory carry forward of the previous year. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. Further, the company operates in a highly competitive and fragmented cotton industry with several organised and unorganised players operating in the same industry. Acuité believes that TRK's EBITDA margins would remain susceptible to raw material price volatility and high inventory holding levels over the medium term.

Outlook:
Acuité believes that TRK will continue to benefit over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' if the company reports increased operating revenues, sustain its cash accruals thus leading to steady improvement in its liquidity. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or higher-than-expected debt-funded capex leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	81.73	83.79	80.56
EBITDA	Rs. Cr.	9.11	7.28	12.22
PAT	Rs. Cr.	0.05	0.04	0.15
EBITDA Margin	(%)	11.14	8.69	15.17
PAT Margin	(%)	0.06	0.05	0.19
ROCE	(%)	5.30	5.44	14.06
Total Debt/Tangible Net Worth	Times	1.70	1.48	1.70
PBDIT/Interest	Times	2.66	2.05	2.54
Total Debt/PBDIT	Times	4.88	5.28	3.71
Gross Current Assets (Days)	Days	288	201	219

Status of non-cooperation with previous CRA:
Not Available

Any other information:
Not Available

Applicable Criteria

- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-4.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.htm

Note on complexity levels of the rated instrument
https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BB/Stable (Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Rating Operations Tel: 040-40042327 srihari.adari@acuite.in Neha Agarwal Senior Analyst - Rating Operations Tel: 040-40055487 neha.agarwal@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.communication@acuite.in

About Acuité Ratings & Research:

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