

Press Release

TRK Textiles India Private Limited

September 27, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BB/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 60.00 crore bank facilities of TRK TEXTILES INDIA PRIVATE LIMITED . The outlook is '**Stable**'.

The rating re-affirmation reflects stagnant revenues, deteriorating capital structure marked by regular capital expenditure (capex) and working capital intensive operations reflected by high gross current asset (GCA) days. However, the rating factors in extensive experience of the promoters, increasing share of captive power to help in cost savings over long term and moderate financial risk profile.

Established in 2006 and based in Tiruppur (Tamil Nadu), TRK Textiles Pvt Ltd (TRK) is promoted and managed by Mr. Saravan S. TRK has an installed capacity of 18,000 spindles and manufactures 100 per cent 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 1.00 Mega Watt (MW) for captive consumption.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of TRK Textiles India Private Limited to arrive at this rating.

Key Rating Drivers:

Strengths

- **Extensive experience of Promoter**

TRK is owned and 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. It has gradually moved from manufacturing of 100 per cent cotton yarn to 100 per cent 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.85.46 crore by depending on both – cotton yarn and fabric. Acuité believes that the promoter's extensive experience in the 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 1.82 times as on March, 2019 against 1.70 times in FY2018. Networth is moderate at Rs.27.48 crore as on March, 2019 vis-à-vis Rs. 26.76 crore as on 31 March, 2018. Stagnant net worth over the years is due to low accretion to reserves, owing to high depreciation charge and continuous capex for addition of knitting machines and captive power. The low profitability and continuous capex has partly impacted the debt protection metrics of net cash accruals to total debt (NCA/TD) at 0.12 times and interest coverage ratio is moderate at 3.28 times in FY2019. It is implementing about Rs.13 crore of debt-funded capex in 2019-20 and further plans to

undertake capex of Rs.13.00 crore over 2021 and 2022. Acuité believes that with stagnant revenues, profitability to remain stagnant owing to high depreciation charge, moderate capex, and working capital intensive operations is expected to keep the financial risk profile remain moderate over the medium term.

• Benefit of captive power plant and further expansion by setting up of 3.0 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. TRK requires 5MW of captive power plant to meet its power requirement. It is setting up a solar power plant of 3 MW with project cost of Rs.13.00 crore and expecting commercialization by Q3FY2020; it is funded through term loan of Rs.9.65 crore and remaining through internal accruals and unsecured loans. Acuité believes that captive power generation is expected to support in reduction of its power cost considerably upto Rs.2.00 –3.00 crore per annum over the medium term thereby, aiding its financial risk profile.

Weaknesses

• Working Capital Intensive Operations

TRK's operations are working capital intensive with Gross Current Assets (GCA) of about 274 days in FY2019. 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 110-120 days over the last two years ending March, 2019. 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 60-120 days. No particular customer contributes more than 5-10 per cent 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. TRK's average bank limit utilisation for last six months through August stood at 83 per cent. 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 and yarn realisations.

• Stagnant topline; remains moderate

TRK's revenue remained stagnant over the last three years at Rs.85.46 crore, Rs.83.79 crore and Rs.83.79 crore in FY19, FY18 and FY17, respectively, due to capacity being already utilised at optimum levels. Acuité believes that the 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

TRK's EBITDA margins have been volatile over the last three years in the range of 8.69 per cent to 10.14 per cent ending FY19. This is due to sharp increase in cotton prices and lower realisations of cotton yarn in last couple of years and change in revenue mix. Raw cotton prices are highly volatile in nature and depend largely on factors such as area under cultivation, monsoon, crop yield, international demand-supply and pricing and inventory carry forward of the previous year. 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.

Rating Sensitivity

- Increase in scale of operations, while maintaining stable profit margins
- Improvement in working capital management
- Deterioration in financial risk profile due to capital expenditure

Material Covenants

None

Liquidity Position:

TRK has adequate liquidity marked by comfortable net cash accruals to its maturing debt obligations. TRK's net cash accruals stood at Rs. 5.81 crore ; they are estimated to remain around Rs. 9.00 crore during 2020-22 against repayment obligation of around Rs. 2.30 – 4.50 crore. TRK's operations are working capital intensive as marked by gross current asset (GCA) days of 274 in FY 2019. This has led to higher reliance on

working capital borrowings, the cash credit limit in the company remains utilized at 81 per cent during the last 6 months period ended August 2019. The current ratio of the company stood moderate at 1.31 times as on March 31, 2019. The company is likely to incur capex of Rs. 13.00 crore over the medium (FY2021). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals to repayment obligations.

Outlook: Stable

Acuite 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 capital structure. 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 - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	85.46	81.73	83.79
EBITDA	Rs. Cr.	8.67	9.11	7.28
PAT	Rs. Cr.	0.73	0.05	0.04
EBITDA Margin	(%)	10.14	11.14	8.69
PAT Margin	(%)	0.86	0.06	0.05
ROCE	(%)	4.99	5.30	5.44
Total Debt/Tangible Net Worth	Times	1.82	1.70	1.48
PBDIT/Interest	Times	3.28	2.66	2.05
Total Debt/PBDIT	Times	5.67	4.88	5.28
Gross Current Assets (Days)	Days	274	288	201

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Sep-2018	Cash Credit	Long Term	34.00	ACUITE BB / Stable (Assigned)
	Term Loans	Long Term	9.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE BB / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BB / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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