

## Press Release

### TRK Textiles India Private Limited

January 11, 2021



#### Rating Reaffirmed & Assigned

<b>Total Bank Facilities Rated*</b>	Rs.79.00 Cr. (Enhanced from Rs.60.00 Cr.)
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable (Reaffirmed & Assigned)
<b>Short Term Rating</b>	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.47.24 Cr bank facilities and assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.31.76 Cr bank facilities of TRK Textiles India Private Limited (TRK). The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of extensive experience of the promoters and modest scale of operations. The rating, however, continues to remain constrained at the same level on account of working capital-intensive operations driven majorly by high receivable days, decline in revenues and profitability margins in FY2020, average financial risk profile, stretched liquidity marked by high bank limit utilization and the impact on operations in FY2021 due to global outbreak of COVID-19.

#### About the Company

Tirupur (Tamil Nadu) based, TRK was incorporated in 2006 and is promoted by Mr. Saravanan. S and Mr. Rangasamy. M. The company is engaged in manufacturing of cotton yarn and knitted fabric. 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 1.00 Mega Watt (MW) for captive consumption.

#### Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of TRK to arrive at the rating.

#### Key Rating Drivers

##### Strengths

- **Extensive experience of promoters**

TRK is owned and managed by Mr. Saravanan 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 extensive experience has enabled the company to establish healthy relationships with customers and suppliers, to ensure a steady raw material supply.

Acuité believes that the promoter's extensive experience in the textile industry and healthy relationship with customers and suppliers is expected to support its business risk profile over the medium term.

- **Benefit of captive power plant**

TRK has a captive wind mill of 1 MW. The power plant has been supporting about 20 percent to its power requirement. The company has already set up solar power plant of 3MW in May, 2020 with project cost of Rs.13.00 Cr, which is funded through term loan of Rs.9.65 Cr and remaining through internal accruals and unsecured loans. The company is planning to set up additional solar power plant of 3MW in Jan, 2021 with project cost of Rs.12.50 Cr which is funded through term loan of Rs.10.50 Cr and remaining through internal accruals and unsecured loans.

Acuité believes that captive power generation is expected to support the company in reduction of its power cost over the medium term, thereby improving its profitability matrices.

## Weaknesses

- **Average financial risk profile**

TRK's financial risk profile is average marked by moderate net worth, deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The tangible net worth of the company stood modest at Rs.28.10 Cr as on 31 March 2020 (Provisional) against Rs.27.48 Cr as on 31 March 2019. The gearing stood at 1.93 times as on 31 March 2020 (Provisional) against 1.82 times as on 31 March 2019. TOL/TNW stood at 2.46 times as on 31 March 2020 (Provisional) against 2.18 times as on 31 March 2019. The total debt of Rs.54.36 Cr as on 31 March 2020 (Provisional) mainly consists of long-term of Rs.12.72 Cr, short-term debt of Rs.36.09 Cr and unsecured loans of Rs.5.56 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 2.46 times and 0.08 times respectively in FY2020 (Provisional), while DSCR stood at 1.21 times in FY2020 (Provisional). Acuité believes that the ability of the company to improve its capital structure by improvement in the net worth will be a key rating sensitivity.

- **Working capital intensive operations**

TRK's working capital operations are intensive marked by Gross Current Asset days (GCA) of 292 days in FY2020 (Provisional) against 274 days in FY2019 owing to high receivable days. The debtors days were recorded at 190 days in FY2020 (Provisional) against 162 days in FY2019; this is majorly due to the delayed payment from its customers due to the current market scenario. The inventory days were recorded at 102 days in FY2020 (Provisional) against 118 days in FY2019. Further, the inventory holding policy followed by the company is 15-120 days to cater to spot orders. However, working capital bank lines remain utilized at ~81 percent for the last twelve months ended November, 2020.

Acuité believes that the working capital operations are expected to remain on similar lines with respect to the receivable cycle; which will remain a key rating sensitivity factor.

- **Moderate scale of operations**

TRK's revenue remained stagnant over the last three years at Rs.81.27 Cr, Rs.85.46 Cr and Rs.81.73 Cr in FY2020 (Provisional), FY2019 and FY2018, respectively, due to capacity being already utilized at optimum levels.

Acuité believes that the revenue growth would continue to remain modest over the medium term until any modernization or enhancement in capacity is undertaken.

- **Volatile EBITDA margins**

The operating margin of the company stood at 8.98 percent in FY2020 (Provisional) against 10.14 percent in FY2019; this is majorly due to the US-China trade war. The exports to China was impacted due to which there was over-supply of yarn in the domestic market. So, this lead to the fall in the price of the cotton yarn which lead to low margins. Also, due to the global outbreak of covid-19, the export market was impacted and the cotton prices were valued at low costs. Cotton yarn orders worth Rs.3.00 Cr-3.50 Cr got cancelled during March, 2020 which was sold in the domestic market after lockdown. Also, 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 organized and unorganized players operating in the same industry.

Acuité believes that TRK's EBITDA margins is expected to improve since the company is focusing more on value additions on the existing machineries over the medium term.

### Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### Material Covenants

None

### Liquidity: Stretched

TRK has stretched liquidity position as reflected by modest net cash accruals, high bank limit utilization and intensive working capital operations. Unencumbered cash and bank balances stood at Rs.0.06 Cr as on 31 March 2020 (Provisional) with a current ratio of 1.20 times in the same period. The working capital operations are intensive marked by GCA of 292 days for FY2020 (Provisional). The working capital limits remains utilized at ~81 percent for the last twelve months ended November, 2020.

Acuité believes that liquidity profile is expected to remain stretched on account working capital-intensive

operations and high bank limit utilization.

#### **Outlook: Stable**

Acuité believes that TRK will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	81.27	85.46
PAT	Rs. Cr.	0.62	0.73
PAT Margin	(%)	0.76	0.86
Total Debt/Tangible Net Worth	Times	1.93	1.82
PBDIT/Interest	Times	2.46	3.28

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

Not Applicable

#### **Any other information**

Not Applicable

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

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

<https://www.acuite.in/view-rating-criteria-55.htm>

#### **Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Dec-2020	Cash Credit	Long Term	34.00	ACUITE BB- (Downgraded; Indicative)
	Term Loan	Long Term	19.00	ACUITE BB- (Downgraded; Indicative)
	Bank Guarantee	Short Term	1.00	ACUITE A4 (Downgraded; Indicative)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Downgraded; Indicative)
27-Sep-2019	Cash Credit	Long Term	34.00	ACUITE BB/ Stable (Reaffirmed)
	Term Loan	Long Term	19.00	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4+ (Reaffirmed)
05-Sep-2018	Cash Credit	Long Term	34.00	ACUITE BB/ Stable (Assigned)

	Term Loan	Long Term	19.00	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 Loan I	1: Mar-2018 2: Dec-2013 3: Dec-2014	10.75%	1: Dec-2024 2: Dec-2020 3: Feb-2021	6.24	ACUITE BB-/ Stable (Reaffirmed)
Term Loan II	Sep-2019	7.60%	Aug-2026	6.46	ACUITE BB-/ Stable (Assigned)
Term Loan III	Sep-2019	7.60%	Aug-2026	3.42	ACUITE BB-/ Stable (Assigned)
Term Loan IV	Jun-2020	7.60%	Jun-2028	3.60	ACUITE BB-/ Stable (Assigned)
Term Loan V	Jun-2020	7.60%	Jun-2028	6.90	ACUITE BB-/ Stable (Assigned)
Working Capital Term Loan (GECL)	Aug-2020	7.40%	Aug-2024	8.13	ACUITE BB-/ Stable (Assigned)
Term Loan (CECCL)	Apr-2020	7.40%	Oct-2023	3.00	ACUITE BB-/ Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB-/ Stable (Assigned)
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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