

Press Release

Towels Enterprises Limited

August 08, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 8.50 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned 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**) to the Rs.8.50 crore bank facilities of TOWELS ENTERPRISES LIMITED (TEL). The outlook is '**Stable**'.

Ludhiana-based, TEL was originally established as a proprietorship firm by Mr. Nohar Chand Gupta. Later, the constitution was changed to limited company in 2015 and the promoters are Mr. Ajay Latawa and Mr. Sumit Gupta. The company is engaged in the trading of terry towels, bedsheets, coal, rice husk, chemicals such as acetic acid, toluene, sodium metal and sodium dichromate to name a few. TEL imports from USA and China, and exports mainly to South Africa.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

TEL was originally established as a proprietorship firm by Mr. Nohar Chand Gupta. Later, the constitution was changed to limited company in 2015. The promoters, Mr. Ajay Latawa and Mr. Sumit Gupta have an experience of more than two decades in the aforementioned line of business. The long track record of operations and experienced management has helped the company to develop healthy relationships with its customers and suppliers. Acuité believes that TEL will sustain its existing business profile backed by established track record of operations and experienced management.

- **Healthy financial risk profile**

TEL has healthy financial risk profile marked by adequate net worth, and debt protection metrics. The net worth of the company stood at Rs. 5.82 crore as on March 31, 2018 as against Rs. 4.31 crore as on March 31, 2017, owing to comfortable accretion to reserves due to moderate profitability. Gearing levels (debt-to-equity) stood at 0.39 times as on March 31, 2018 as against 0.90 times as on March 31, 2017. Further, the interest coverage ratio stood at 11.50 times for FY2018 as compared to 5.78 times for FY2017. Total outside liabilities to total net worth (TOL/TNW) stood at 1.65 times as on March 31, 2018 vis-à-vis 2.56 times as on March 31, 2017. Acuité believes that financial risk profile of the group is likely to remain healthy over the medium term, on account of healthy net worth and debt protection metrics.

- **Efficient working capital operations**

The company has efficient working capital operations as reflected in Gross Current Assets (GCA) of 63 days in FY2018 against 64 days in FY2017. GCA days remained low due to low inventory holding period of 3 days in FY2018 as against 11 days in FY2017 and debtors' collection period of 47 days in FY2018 as against 46 days in FY2017. Acuité believes that the working capital requirements will continue to remain efficient over the medium term on account of the level of inventory to be maintained and the credit given to its customers.

Weaknesses

- **Moderate scale of operations and customer concentration**

The operations of the company are moderate. The company generates its revenue primarily from the orders by IOL Chemicals and Pharmaceuticals Limited as noticed in the recent years. However, the company booked revenue of Rs.134.92 crore for FY2019 (Provisional) as against Rs.49.75 crore in FY2018 and Rs.49.09 crore in FY2017. Acuité believes that customer concentration risk will be a key rating sensitivity.

- **Highly competitive and fragmented nature of industry**

The company is operating in a highly competitive and fragmented industry with large number of organised and unorganised players present in the market which limits the bargaining power of the company. However, the risk is mitigated to an extent on account of established track record of operations, experienced management and long standing relationship with IOL Chemicals and Pharmaceuticals Limited.

Liquidity position:

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.62 crore for FY2018, while its maturing debt obligations were Rs.0.05 crore for the same period. The cash accruals of TEL are estimated to remain in the range of around Rs.9.35 crore to Rs.10.05 crore during 2019-21 against repayment obligations of around Rs.2.10 crore. The company's working capital operations are efficient, marked by GCA of 63 days for FY2018. TEL maintains cash and bank balances of Rs.0.03 crore as on 31 March, 2018. The current ratio stood at 0.98 times as on 31 March, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against major debt repayments over the medium term.

Outlook: Stable

Acuité believes that TEL will maintain a 'Stable' outlook on account of experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in working capital operations while maintaining revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in scale of operations or profitability or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.75	49.09	14.35
EBITDA	Rs. Cr.	2.36	1.81	0.79
PAT	Rs. Cr.	1.54	1.01	0.39
EBITDA Margin	(%)	4.74	3.69	5.51
PAT Margin	(%)	3.09	2.06	2.72
ROCE	(%)	28.68	26.57	28.45
Total Debt/Tangible Net Worth	Times	0.39	0.90	0.73
PBDIT/Interest	Times	11.50	5.78	3.41
Total Debt/PBDIT	Times	0.93	2.01	2.87
Gross Current Assets (Days)	Days	63	64	242

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

CRISIL, vide its press release dated July 19, 2019 had denoted the rating of Towels Enterprises Limited as 'CRISIL BB-/Stable/CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.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)

Not Applicable

*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	5.00	ACUITE BB/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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