January 29, 2024

T C Terrytex Limited: [ICRA]BBB- (Stable)/ [ICRA]A3; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	20.00	[ICRA]BBB- (Stable); assigned
Short -term – Non-Fund based – Bank facilities	10.00	[ICRA]A3; assigned
Total	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to T C Terrytex Limited (TCTL or the company) factor in the extensive experience of its promoters in the textile industry and the company's established position as an exporter of terry towels to some of the large format retailers in countries like the US and Australia. The ratings also factor in TCTL's demonstrated ability to operate its plant at healthy capacity utilisation levels in the recent fiscals. This led to TCTL's revenue increasing over the past few years to more than Rs. 600 crore (estimated in FY2024) against Rs. 446 crore in FY2021 and net cash accruals improving to Rs. 25 crore (estimated in FY2024) against Rs. 17 crore in FY2021.

The ratings are, however, constrained by the susceptibility of the company's margins to volatility in raw material prices, relatively higher customer and product concentration in the terry towel segment and the company's modest financial risk profile, reflected by elevated Debt/OPBDITA of 4.4 times as on March 31, 2023 and an interest coverage of 1.9 times in FY2023. Besides, the working capital intensive nature of its operations results in high working capital borrowings and the company has sizeable annual debt repayments of ~Rs. 20 crore in the upcoming fiscal, thereby moderating the coverage metrics in the near term, with debt service coverage ratio (DSCR) expected to remain around 1-1.1 times as on March 31, 2024. While assigning the ratings, ICRA also notes that the company's limited capex outlay in the upcoming fiscal, scheduled amortisation of term debt and adequate liquidity cushion in the form of undrawn working capital limits sanctioned from banks, are expected to improve its financial risk profile, going forward.

The Stable outlook on TCTL's long-term rating reflects ICRA's expectation of healthy operating performance over the near-to-medium term, with optimum capacity utilisation and a gradual improvement in profitability, which are expected to help the company maintain comfortable debt coverage metrics in the medium term.

Key rating drivers and their description

Credit strengths

Established position in home textile export market (terry towels) – TCTL is an established manufacturer and exporter of terry towels having a wide range of bath towels, kitchen towels, involving higher value addition with embroidery and use of jacquard looms for designs and patterns. The company has an established association with some of the large format retailers in Australia and the US (like Kmart Australia Limited, Revman International Inc, Homegoods Inc etc.), demonstrating ability to secure sizeable repeat orders from these clients in the recent fiscals. TCTL also benefits from sales of dyed yarn, predominantly sold in the domestic market (and used for captive consumption).

Extensive experience of the promoters in the industry – The company is managed by Mr. Akhil Satia (Managing Director and promoter), who has extensive experience in the textile industry. The promoter's strong understanding of market dynamics and healthy relationships with the suppliers and customers are expected to continue to support the business.

Long association with leading large format retailers in the US and Australia – The company's demonstrated track record of continued relationship with some of the large and reputed retail chains in the US and Australia over the years, has ensured repeat orders, lending stability to its revenues. Further, favourable demand and an expected shift in sourcing by large retailers from the competing supplier nations to India are likely to support the business growth in the medium term.

Credit challenges

High working capital intensity owing to high inventory days – TCTL's operations remain working capital intensive due to a high inventory holding period for raw materials as well as finished goods. The company's working capital intensity, measured by the net working capital to the operating income, increased to 4% in FY2023. While the high inventory levels impact the company's return metrics and liquidity, the risks are mitigated to an extent by order-backed inventory.

Intense competition in the home textile segment limits pricing flexibility; earnings exposed to fluctuations in foreign exchange and raw material prices – The company's profitability is vulnerable to fluctuations in cotton yarn prices. Further, the company derives more than 70% of its revenues from exports and hedges only 50% of its foreign exchange exposure, so it remains exposed to fluctuations in forex rates. Further, increasing competition in the homes textiles exports market limits the bargaining power of the suppliers. Nonetheless, TCTL's established relationships with its key customers mitigate the risk to some extent.

Relatively higher customer and product concentration in terry towel segment – The company's client concentration risk remains high, with its top ten customers contributing 60-65% to the overall revenues in the recent years. Moreover, the company is exposed to geographical concentration risk as the US and Australia together account for more than 50-60% of the overall revenues.

Moderate debt protection metrics – Owing to debt funded capex undertaken in the past and GECL loans availed in the recent fiscals, its credit and coverage metrics remain modest, as indicated by total debt/OPBIDTA at ~4.4 times, interest coverage at 1.9 times and TOL/TNW at ~1.9 times in FY2023. However, with scheduled repayments of ~Rs.20 crore per annum and no incremental plans of taking debt, the company's coverage metrics are likely to improve with interest cover and total debt/OPBITDA expected to improve to 2.5 times and 3 times in FY2025, respectively.

Liquidity position: Adequate

TCTL's liquidity is adequate, with cash and bank balances and liquid investments of ~Rs. 4.4 crore along with a cushion of ~Rs. ~15 crore in the form of unutilised working capital limits (with commensurate drawing power) as on September 30, 2023 (provisional). TCTL's annual net cash accruals are expected at Rs.25-30 crore in the current and the upcoming fiscals. Against this, it has debt repayment obligations of ~Rs. 19-21 crore per annum. Further, no major capex outlay apart from maintenance capex of ~Rs. 3-4 crore per annum in the upcoming fiscals is expected to provide additional comfort to the liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade TCTL's ratings if the company sustains a healthy growth in its scale, while maintaining healthy return metrics and an efficiently managed working capital cycle, resulting in an improvement in its credit metrics. Further, increased business from a wider set of customers and geographies, and enhanced product portfolio could also be positive triggers for the ratings.

Negative factors – The ratings may be downgraded if there is a significant decline in revenues and margins or any further elongation of the working capital cycle on a sustained basis. Credit metrics that may lead to ratings downgrade will include TOL/TNW of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Textiles - Fabric
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TCTL was incorporated on August 30, 2005 as a public limited company. The company has an installed capacity of 34 metric tonnes per day (MTPD) for towels from 104 looms and 18 MTPD for dyed yarn in Mohali (Punjab). The company's product portfolio includes a wide range of bath towels and kitchen towels, which are exported to some of the large format retailers in Australia and the US (like Kmart Australia Limited, Revman International Inc, Homegoods Inc etc.). Mr. Akhil Satia is the promoter of the company.

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	546.0	544.0	320.0
PAT	5.5	11.0	7.6
OPBDIT/OI	7.8%	8.6%	9.0%
PAT/OI	1.0%	2.0%	2.4%
Total outside liabilities/Tangible net worth (times)	2.1	1.9	1.7
Total debt/OPBDIT (times)	5.0	4.4	3.5
Interest coverage (times)	1.7	1.9	2.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 29, 2024	-	-	-
1	Cash Credit	Long term	20.0	NA	[ICRA]BBB- (Stable)	-	-	-
2	Non-Fund based – Bank facilities	Short term	10.0	--	[ICRA]A3	-	-	-

NA: Not available

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short -term – Non-Fund based – Bank facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term Fund-based – Cash Credit**	NA	NA	NA	20.0	[ICRA]BBB- (Stable)
NA	**Short -term – Non-Fund based – Bank facilities**	NA	NA	NA	10.0	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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