

February 17, 2017

Tessitura Monti India Private Limited

Rating Action

ICRA has opined a long-term rating of [ICRA]BBB (pronounced ICRA triple B)¹ and a short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) for Tessitura Monti India Private Limited (TMIPL). The outlook on the long-term rating is Stable.

Rationale

The credit opinion factors in the long operating track record of the Italy-based Gruppo Tessile Monti Spa (GTM) Group, which has been engaged in the manufacturing of fabric since 1911. The credit opinion also derives strength from the strong operational and marketing support enjoyed by TMIPL as a part of the GTM Group. This is reflected in its premium quality fabric, centralised yarn procurement as well as access to GTM's established and reputed client base. The credit opinion also factors in the moderate financial profile of the company, characterised by improving leverage indicators because of scheduled debt repayments. The liquidity position of the company also remains satisfactory, as evident from the moderate utilisation of working capital limits.

Around 60% of TMIPL's sales are made to related parties and most of its exports cater to the European market. While this provides TMIPL access to an established customer base, it also exposes the company to high customer and geographic concentration risks. Reduced off-take from one of the related parties as well as weakened demand conditions in Europe impacted the revenues and profitability levels of the company during FY2015 and FY2016. The credit opinion also factors in the working capital intensive nature of TMIPL's operations due to its high receivable and inventory holding period, as well as the susceptibility of its profitability to foreign exchange (forex) fluctuations owing to its large exports—although the risk is partially mitigated as it undertakes partial hedging of its export receivables through forward contracts.

The revenue run rate of the company and profitability levels improved in 9M FY2017, aided by improved product off-take from related parties as well as depreciation of the Rupee against the Euro—although it remained lower than the historic EBITDA margin levels of 16-17%. The ability of the company to improve its revenues and profitability levels will remain the key rating sensitivities. Moreover, any large debt funded capital expenditure undertaken by the company will be a key rating monitorable.

Key rating drivers

Credit Strengths

- Strong operational and marketing support enjoyed as part of the GTM Group;
- Moderate leverage indicators and satisfactory liquidity position as evident by moderate utilisation of working capital limits.

Credit Weakness

- Exposure to high customer and geographic concentration risks;
- Working capital intensive nature of operations, characterised by high receivable and high inventory holding periods.

Description of key rating drivers highlighted above:

TMIPL is a closely held subsidiary of the Italy-based GTM Group, which is engaged in manufacturing premium shirt fabrics. TMIPL enjoys strong operational and marketing support as part of the GTM Group. This is reflected in its premium quality fabric (made from cotton yarn counts ranging from single 50s to double 100s), centralised yarn procurement as well as access to GTM's established and reputed client base. TMIPL also receives support from Tessitura Monti Spa for acquiring new orders and marketing its products in overseas markets.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.



TMPIIL, however, remains exposed to high client concentration risks, with sales to related parties accounting for around 60% of its revenues over the last four years. Reduced off-take from one of the related parties (to which TMPIIL acts as a preferred supplier for at least half of its fabric requirement) owing to a shift in consumer preferences for printed fabrics (as against yarn dyed fabrics manufactured by TMPIIL) led to a decline in sales in FY2016. The company also remains exposed to high geographic concentration risks as majority of its exports cater to the end-market in Europe. TMPIIL's export sales declined during FY2015 and FY2016, amid subdued demand conditions and resultant decline in realisation. All these factors culminated in weakened profitability levels in FY2016.

The operations of the company are working capital intensive in nature because of its high receivable and inventory holding period. While working capital borrowings remained at elevated levels during the last two years, given the scheduled long term debt repayments as well as limited capital expenditure undertaken by the company, total debt levels of the company have been declining over the last two years, translating into improving gearing levels for the company. The liquidity position of the company also remains satisfactory, as evident from the moderate utilisation of working capital limits.

Analytical approach

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology
Rating Methodology for Textiles (fabric)

About the Company:

TMPIIL is a closely held subsidiary of the Italy-based, Gruppo Tessile Monti Spa. The company is primarily engaged in the manufacturing of premium cotton shirt fabrics. The company uses superior Egyptian cotton yarn and vat dyes for its fabrics. While Egyptian cotton lends greater softness and finish to the fabric, vat dyes (vis-à-vis reactive dyes) ensure greater colour fastness for the product. Currently, the company has a total production capacity of 14 million metres of fabric per annum. The total feasible production capacity of manufacturing dyed unfinished fabric stands at ~12 million metres per annum, with the company having a finishing/processing capacity of 8 million metres per annum.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Not applicable

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in



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