

July 24, 2017

## Texport Industries Private Limited

### Summary of rated instruments

Instrument	Rated Amount (in crore)	Rating Action
Short Term: Fund-based Facilities	150.89	Reaffirmed at [ICRA]A2+
Short Term: Non Fund-based Facilities	10.00	
Long Term: Term Loan Facilities	20.00	Reaffirmed at [ICRA]A- / outlook revised from Stable to Negative
<b>Total</b>	<b>180.89</b>	

### Rating action

ICRA has re-affirmed the long term rating at **[ICRA]A-** (pronounced as ICRA A minus)<sup>1</sup> for the Rs. 20.00-crore term loans of Texport Industries Private Limited (TIPL). ICRA has also re-affirmed the short-term rating of **[ICRA]A2+** (pronounced as ICRA A two plus) for the Rs 150.89 crore fund-based facilities and Rs 10.00 crore non-fund based facilities of the company. The outlook on the rating has been revised from 'stable' to 'negative'.

While assigning the rating, ICRA has taken a consolidated view of Texport Industries Private Limited, JBC Garments Private Limited (JBC) and JBC International LLP (JBCIL) due to the strong operational and financial linkages.

### Rationale

The outlook on the rating has been revised from stable to negative due to the dip in the operating profit margins of the company and lower than expected growth in revenue in FY2017.

The ratings continue to be supported by TIPL's operational track record of over three decades in the garmenting business with long standing relationships with large international players including Kohl's Corporation, Robert Graham Design LLC and PVH Corp resulting in repeat orders. The company continues to have a healthy order book, which as on April 2017 stood at Rs. 250 crore. The ratings continue to be constrained by the high customer concentration risks. By virtue of customer concentration risks, the geographic revenue concentration is also high towards United States of America. Low bargaining power with customers, cost-intensive nature of operations, coupled with stiff competition from exporting nations of Vietnam and Bangladesh are expected to continue to constrain the operating profit margins going forward. The company is also exposed to external factors such as inherent cyclicity in demand patterns apart from the regulatory and forex related risks.

ICRA has also taken note of significant investments portfolio [~Rs 60 crore as on March 2017 – 1/4<sup>th</sup> of net worth] held by TIPL, which was largely created through the sale proceeds of its subsidiary brand Robert Graham in FY2012. While part of these investments are held in mutual funds (including fixed maturity plans), a significant portion of these investments are held in not-traded investments, and hence

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

illiquid in nature, if required, these investments may not be entirely available for the immediate funding requirements of the company.

TIPL is currently undertaking debt-funded capital expenditure amounting to Rs 95 crore by way of backward integration into knitting and processing operations, which is expected to be commissioned by Q3 of FY2018. While ICRA expects the company shall be able to fund the equity requirements for this capex from its internal accruals, however it will lead to increased debt levels. The ability of the company to commission the plant without any major cost or time overruns and to improve profitability subsequent to backward integration will be critical for maintaining debt coverage indicators.

The ability of the company to obtain incremental orders and improve its revenue and profitability will be a key rating sensitivity. Further the quantum of illiquid non-core assets and its impact on company's liquidity will be a monitorable.

### **Key rating drivers**

#### **Credit strengths**

- More than three decades of experience in the Ready Made Garment (RMG) exports
- Established relationships with renowned international retailers including Kohl's Corporation, Robert Graham Design LLC and PVH Corp is expected to support business volumes
- Own manufacturing facilities help to maintain quality and timeliness

#### **Credit weaknesses**

- Stiff competition and low bargaining power with customers are expected to continue to constrain the operating profit margins
- Exposed to external factors such as inherent cyclicity in demand patterns apart from the regulatory and forex related risks
- High customer concentration with top five customers contributing 77% of the total sales in FY2017
- Quantum of incremental cash accruals utilized towards illiquid non-core assets and its impact on weakening of company's liquidity

### **Description of key rating drivers:**

TIPL is involved in the export of Ready Made Garments and has presence in both the United States as well as Europe, with exports accounting for more than 93% of the company's sales revenues in FY2017. TIPL's product portfolio consists of 80% of woven garments and 20% of knitted wear. The company has long standing relationship with international clients such as Kohl's, Tommy Hilfiger and Polo Ralph Lauren. Robert Graham, a high end design brand which was its in house brand till 2011 is another major customer. The customer concentration is high with 77% of FY2017 revenue contributed by the top five customers.

The company has been adding capacities year on year with recent plant addition in Hindupur which was commissioned over three phases with Phase-III completed in H1, FY2017. The company is currently in the process of setting up a backward integration unit with a yarn dyeing, knitting and knit processing unit in Hindupur, Andhra Pradesh. The backward integration plant is to be undertaken at an estimated capex of Rs 95 crore with a debt to equity funding mix of 2:1. The capex is 35% complete as on April'2017 and the project is expected to be commissioned in Q3, FY2018.

Year	FY2016	FY2017 Provisional
Operating income (Rs crore)	612	628
PAT (Rs crore)	27.5	20.3
OPBDIT/ OI (%)	9.2%	7.1%
RoCE (%)	13.1%	9.9%
Total Debt/ TNW (times)	1.01	1.04
Total Debt/ OPBDITA (times)	3.6	5.2
Interest coverage (times)	6.5	3.4
NWC/ OI (%)	28%	29%

Source: Financial statements of Company and ICRA Research; Consolidated financials of TIPL, JBC and JBCIL

*OPBDITA: Operating Profit before Depreciation, Interest, Tax and Amortisation; PBIT: Profit before Interest and Tax; DTL: Deferred Tax Liability; CWIP: Capital Work-in-Progress; NWC: Net Working Capital; Return on Capital Employed (ROCE):  $[PBIT / \text{Average (Total Debt + TNW + DTL - CWIP)}]$ ; Tangible Net Worth (TNW); Interest coverage: OPBDITA / Interest and finance charges*

#### **Analytical approach:**

While assigning the rating, ICRA has taken a consolidated view of Texport Industries Private Limited, JBC Garments Private Limited and JBC International LLP due to the strong operational and financial linkages.

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

#### **Links to applicable criteria:**

Corporate Credit Ratings: A Note on Methodology

Indian Textiles Industry-Apparels: A Note on Methodology

#### **About the company:**

Texport Industries Private Limited (TIPL) was started by Mr. Narendra Goenka in 1978 as a garment manufacturing export house. TIPL has a presence in the ready-made garment (RMG) industry mainly in the United States of America and Europe. The company operates from over 17 manufacturing factories spread across Bangalore, Tirupur, Thiruvanthapuram, Mumbai and Hindupur with an estimated capacity of over 1.8 million garments per month.

JBC Garments Private Limited (JBC) and JBC International LLP (JBCIL) undertake export sales on behalf of TIPL. TIPL had 100% shareholding in JBC till 31<sup>st</sup> March 2014, however post that the shares have been fully sold to the promoters and TIPL doesn't hold any shares as on date in JBC. JBCIL is also held by the promoters of TIPL.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current Rating (2017 )			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Jul-17	-	Jan-16	Jan-15
1	Fund Based - Working Capital Limits	Short Term	150.89	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2
2	Non Fund Based Limits	Short Term	10.00				
3	Term Loan	Long Term	20.00	[ICRA]A-(Negative)	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. Cr ore)</b>	<b>Current Rating and Outlook</b>
Fund Based Working Capital Limits	-	-	-	150.89	[ICRA]A2+
Non Fund Based Working Capital Limits	-	-	-	10.00	[ICRA]A2+
Term Loan	-	-	March 2025	20.00	[ICRA]A- (Negative)

Source: Texport Industries Private Limited

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### About ICRA Limited:

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