

## Tessitura Monti India Pvt Ltd

November 05, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	27.00	27.00	[ICRA]BBB- (Negative); Downgraded from [ICRA]BBB(Negative)
Fund based limits	105.00	105.00	[ICRA]A3; Downgraded from [ICRA]A3+
Non-fund based Limits	14.00	14.00	[ICRA]A3; Downgraded from [ICRA]A3+
Unallocated limits	4.00	4.00	[ICRA]BBB- (Negative) / [ICRA]A3; Downgraded from [ICRA]BBB(Negative)/[ICRA]A3+
<b>Total</b>	<b>150.00</b>	<b>150.00</b>	

### Rating action

ICRA has downgraded the long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BBB (pronounced ICRA triple B) for the Rs. 27.00-crore<sup>1</sup> fund-based bank facilities of Tessitura Monti India Pvt. Ltd. (TMIPL or the company)<sup>2</sup>. ICRA has also downgraded the short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 119.00-crore fund based and non-fund based bank facilities of the company. ICRA has further downgraded the long-term rating to [ICRA]BBB- and the short-term rating to [ICRA]A3 for the Rs. 4.00-crore unallocated limits of the company. The outlook on the long-term rating continues to remain Negative.

### Rationale

The revision in ratings takes into account the moderation in financial performance of TMIPL as reflected by net losses in FY2018, on account of sizeable forex loss, as well as large debt-funded capex planned in the current and in next fiscals, which are likely to further pressurise its debt protection metrics and weaken its capital structure. Furthermore, considerable investment in fixed asset base directed towards plant and machinery against a relatively moderate scale of operations has resulted in low return indicators and weak asset turnover ratio. The ratings also remain constrained by the high working capital intensity of operations, which further stretched in FY2018 as indicated by NWC/OI to ~54% during FY2018 as against ~45% in FY2017. This is attributable to elongation in the receivable cycle and a high inventory holding period. Further, more than 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 it to high customer and geographic concentration risks, as any reduction in off-take from any of the related parties or weakening of demand conditions, particularly in European markets, can adversely impact the operations of the company.

The ratings, however, continues to favourably factor in the long operating track record of TMIPL, the strength that TMIPL accrues from its parent company, Gruppo Tessile Monti Spa, Italy, which has been engaged in fabric manufacturing since 1911. The ratings also derive strength from the strong operational and marketing support enjoyed by TMIPL as part of the Gruppo Monti Group. This is reflected in its premium quality fabric, centralised yarn procurement as well as access to the Group's established and reputed client base.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</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

## Outlook: Negative

The negative outlook reflects the likely pressure on the company's profitability emanating from near term debt-funded capex, as well as any adverse impact of the forex rate, given that recent volatility has been very sharp. Further, its continued elongated receivable cycle as well as slow inventory turnaround would impact the liquidity profile adversely from its present level, triggering a rating downgrade. The outlook may be revised to Stable if considerable ramp-up in scale of operations along with its profitability, improvement in capital structure and better working capital management improve the overall financial risk profile of the company.

## Key rating drivers

### Credit strengths

**Long operational track record of the Group leading to established relationship with customers and suppliers** - TMIPL is a closely held subsidiary of the Italian, Gruppo Tessile Monti Spa (GTM), which has been manufacturing premium cotton shirting fabrics since 1911. The extensive track record of the company and Group has led to established relationship with customers and suppliers in domestic as well as international markets.

**Operational synergies arising out of other Group companies engaged in the same industry** - TMIPL is part of the GTM Group with various companies under the Group's umbrella. The Group manufactures cotton fabrics as well as shirts, undertaking shirting fabric manufacturing through its two subsidiaries—Tessitura Monti India Pvt. Ltd. (India) and Tessitura Monti Spa (Italy)—and a related entity, Gruppo Monti Spa. The Group is also forward integrated into manufacturing men's shirts through two joint ventures (JVs)—Laguna Clothing Private Limited (LCPL) and Aurora Apparel Private Limited (AAPL). Being part of the GMT Group, TMIPL enjoys strong operational and marketing synergies as reflected by its premium quality fabrics, centralised yarn procurement as well as access to the Group's established and reputed client base. TMIPL acts as a preferred supplier for at least half of the fabric requirement of its Group entities, LCPL and AAPL. TMIPL also receives sales support from its Group in the form of direct export orders for dyed, unfinished fabric.

### Credit challenges

**Sizable debt-funded capital expenditure in near term likely to put pressure on debt protection metrics** - Debt level of the company increased to Rs. 114.57 crore as on March 31, 2018 from Rs. 95.57 crore as on March 31, 2017, primarily due to continued debt-funded capex as well as increase in working capital requirements due to stretch in receivable position. This led to increase in gearing level to 1.18 times as on March 31, 2018 from 0.97 time as on March 31, 2017. Further, the company is expected to incur pending capex of ~Rs. 3.5 crore proposed to facilitate greater in-house execution of finishing activities as well as to meet requirements of the pollution control board, to be funded entirely from Exim Bank. In addition, the company has also planned to take over Tessitura Monti Cekia SRO by FY2020. The total capex for the same stands at Rs. 62.00 crore, which is expected to be funded through term loans of Rs. 57.60 crore (93%) and promoters' funding of Rs. 4.40 crore (7%). Given the company to be acquired operates on high fixed overhead cost structure, commensurate returns from the same, may be take time. Hence in near term debt metrics is likely to muted, unless there is a sharp turnaround in the present Indian operations.

**Weak asset turnover ratios with considerable investment in fixed asset** - Against a considerable investment in fixed asset base directed towards plant and machinery, as represented by a gross block of ~Rs. 258 crore as on March 31, 2018, the scale of operations has remained relatively moderate with operating income of ~Rs. 244.57 crore. This has resulted in low return indicators as represented by RoCE of ~1.68% and weak asset turnover ratio as represented by OI/gross block of ~95% as on March 31, 2018.

**Working capital intensive nature of operations due to slow receivable cycle and high inventory holding** - The operations of the company are working capital intensive in nature because of its high receivables and inventory holding period. It generally offers a credit period of 150 days to related parties and 45-60 days to unrelated parties in the domestic and export markets. The company also holds around 130-140 days of inventory. All of the above translate into high working capital intensity. Further, working capital intensity, as represented by NWC/OI, increased from 45.46% in

FY2017 to 53.84% in FY2018, primarily due to extended credit to its Group company, LCPL, which drives ~23% of TMIPL's total sales.

**Margins vulnerable to forex risks; sizable forex losses translated to net losses during FY2018** - TMIPL faces significant exposure to the forex market as 40-50% of its total revenues are generated through exports. Margins are susceptible to unprecedented currency fluctuations in the foreign exchange market, despite hedging and sharp movement in forex rate having resulted in sizable forex loss of Rs. 5.81 crore in FY2018. This has further translated into net loss of Rs. 1.94 crore in FY2018. Weakening in profitability has led to a weakening in the cash accrual position of the company.

**Exposure to high customer and geographic concentration risks** - Around 60-70% of the revenues of TMIPL over the last four years have been driven by sales to related entities, Tessitura Monti SPA (Italy), LCPL and AAPL. Another 10% is led by direct sales to overseas markets, orders for which are secured by TMIPL's parent entity. The balance 20-30% of sales is accounted for by the domestic market. The company is thus exposed to customer concentration risks, given the high proportion of sales to related entities. Reduced off-take from Group companies owing to weak markets will impact its sales. The company also remains exposed to high geographic concentration risks as majority of its exports cater to the end-market in Europe. TMIPL's export sales have been declining marginally YoY till FY2017 amid subdued demand conditions in Europe. However, quantity sales as well as revenue realisation from exports witnessed a positive trend since FY2018.

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

**Links to applicable criteria:**

[Corporate Rating Methodology](#)

[Rating Methodology for Entities in the Indian Textile Industry – Fabric Making](#)

### About the company:

Tessitura Monti India Private Limited is a closely held subsidiary of the Italian firm, Gruppo Tessile Monti Spa. Incorporated in 2001, the company is engaged in manufacturing 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, vat dyes (vis-à-vis reactive dyes) ensure greater colour fastness. 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.

As per FY2018, the company has reported a net loss of Rs. 1.90 crore on an OI of Rs. 244.57 crore, as compared to a net profit of Rs. 2.15 crore on an OI of Rs. 239.63 crore in FY2017.

### Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	239.63	244.57
PAT (Rs. crore)	2.15	-1.94
OPBDIT/ OI (%)	7.71%	7.87%
RoCE (%)	5.78%	1.68%
Total Debt/ TNW (times)	0.97	1.18
Total Debt/ OPBDIT (times)	5.18	5.95
Interest Coverage (times)	2.42	3.27
NWC/ OI (%)	45.46%	53.84%

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

**Any other information: None**

**Rating history for last three years:**

Sr. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016	
							November 2018	March 2018		March 2017
1	Term loans	Long-term	27.00	22.6	[ICRA]BBB-(Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	-	
2	Fund based working capital limits	Short-term	105.00	-	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	-	-	
3	Non-fund based limits	Short-term	14.00	-	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	-	-	
4	Unallocated limits	Long-term/Short-term	4.00	-	[ICRA]BBB-(Negative) / [ICRA]A3	[ICRA]BBB (Negative) / [ICRA]A3+	[ICRA]BBB (Stable) / [ICRA]A3+	-	-	
5	Credit Opinion	Long term/short term	-	-	-	-	-	[ICRA]BBB (Stable) / [ICRA]A3+	-	

**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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	March 2010	-	October 2018	3.50	[ICRA]BBB- (Negative)
NA	Term Loan 2	October 2015	-	July 2020	11.50	[ICRA]BBB- (Negative)
NA	Term Loan 3	August 2017	-	March 2025	12.00	[ICRA]BBB- (Negative)
NA	Fund based limits				105.00	[ICRA]A3
NA	Non- Fund based limits				14.00	[ICRA]A3
NA	Unallocated Limited				4.00	[ICRA]BBB- (Negative) / [ICRA]A3

Source: Tessitura Monti India Pvt Ltd.

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