

May 27, 2019

Tessitura Monti India Pvt Ltd: Long-term rating downgraded to [ICRA]BB+(Stable), short-term rating downgraded to [ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	27.00	15.00	[ICRA]BB+(Stable); Downgraded from [ICRA]BBB- (Negative)
Fund-based Limits	105.00	105.00	[ICRA]A4+; Downgraded from [ICRA]A3
Non-fund Based Limits	14.00	14.00	[ICRA]A4+; Downgraded from [ICRA]A3
Unallocated Limits	4.00	16.00	[ICRA]BB+(Stable)/[ICRA]A4+; Downgraded from [ICRA]BBB- (Negative)/[ICRA]A3
Total	150.00	150.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings reflects the weakening of Tessitura Monti India Private Limited's (TMIPL's) operating profitability owing to lower absorption of fixed cost (given muted growth in the operating income (OI) in FY2019), and the subsequent adverse impact on the coverage indicators leading to a moderation in its overall financial profile. The stagnancy in sales and the dip in margins are on account of challenging conditions in the key consuming market as evident from the continued decline in quantity sales over the last few years. The ratings are also constrained by the relatively weak financial profile of the parent company characterised by losses at net level, aggressive capital structure and moderate coverage indicators. This limits the parent's ability to downstream cash flows to its subsidiaries if circumstances warranted. The ratings also remain constrained by the high working capital intensive nature of the company's operations arising from the extended credits offered to its Group companies, who are its major customers, coupled with the high stocking of inventory in the business. The ratings also note the susceptibility of the company's profitability to forex currency movements.

The ratings, however, continue to favourably factor in TMIPL's long operational track record, operational and marketing support enjoyed by the company via access to Group's established client base. The rating also continues to draw comfort from the company's favourable capital structure, resulting from a healthy net worth base.

Outlook: Stable

ICRA expects TMIPL to continue to benefit from the established experience of its promoters. The outlook may be revised to Positive if the company achieves robust growth along with increase in profitability, and improvement in working capital cycle through improvement in receivable turnaround as well as decline in inventory levels. Conversely, the outlook may be revised to Negative in case of any significant decrease in operations and/or deterioration in profitability, or significant forex losses leading to lower-than-estimated cash accruals. The outlook may also be revised to Negative in case of deterioration in capital structure through considerable increase in dependency on external borrowings and/or debt-funded capex, or a further stretch in the working capital cycle resulting in deterioration in the financial risk profile.

Key rating drivers

Credit strengths

Group's long operational track record leading to established relationships with customers and suppliers - The company's operations are primarily handled by Mr. Madhukar Mayyala Kamath and Mr. Shrikrishna Yashwant Kelkar. In the textile industry, Mr. Kelkar has an established experience of 42 years, while Mr. Kamath has an established experience of 31 years. Further, TMIPL, incorporated in 2001, is a closely-held subsidiary of the Italian firm, Tessitura Monti SPA (erstwhile Gruppo Tessile Monti Spa), which has been manufacturing premium cotton shirting fabrics since 1911. The extensive track records of the company and the Group have led to established relationships with customers and suppliers in domestic as well as international markets. This shall drive the company's future growth.

Comfortable capital structure as on March 31, 2019 - The company's capital structure remains comfortable, as depicted by a low gearing of 0.97 time as on March 31, 2019. This is mainly attributable to the company's relatively strong net worth base.

Credit challenges

Muted growth and fluctuating profitability - The company's OI witnessed a muted growth in FY2019 primarily due to challenging demand conditions in the key consuming market, which is also witnessed via decline in volume sales from 8.79 million meters in FY2018 to 8.42 million meters in FY2019. This, coupled with lower absorption of fixed cost, led to weakening of the profitability at operating level to 5.25% in FY2019 from 7.87% in FY2018. However, the company registered a net profit of Rs. 6.83 crore in FY2019 against a net loss of Rs. 1.94 crore in FY2018. This was primarily due to a forex gain of Rs. 6.72 crore in FY2019 against a forex loss of Rs. 5.81 crore in FY2018, as well as one-time revenue of Rs. 4.50 crore from sales of its investment in Laguna Clothing Mauritius Limited.

Limited ability of parent company to extend financial assistance, given stretched financial profile - The parent company's financial profile remains weak, characterised by losses at net level, aggressive capital structure and moderate coverage indicators, which limit its ability to downstream cash flows to the subsidiaries, if circumstance warranted.

Weak asset turnover ratio with considerable investment in fixed asset - The company has invested a considerable amount in fixed asset base, which is directed towards plant and machinery, as represented by a gross block of Rs. 262.85 crore as on March 31, 2019. The scale of operations remained relatively moderate with OI of Rs. 247.45 crore in FY2019. This also resulted in low return indicators as represented by ROCE of ~7.37%, and a weak asset turnover ratio as represented by OI/gross block of ~95% as on March 31, 2019.

Working capital intensive nature of operations due to slow receivable cycle and high inventory holding - The company's operations are working capital intensive in nature because of its high receivable and inventory holding periods. The company generally offers a credit period of 150 days to related parties and 45-60 days to unrelated parties in domestic and export markets. The company also holds ~130-140 days of inventory. All these translate into a high working capital intensity. Further, working capital intensity, as represented by NWC/OI, remained high at 53.78% in FY2019 primarily due to extended credits to its Group company, which contributes ~65% to the total sales.

Margins vulnerable to forex risks; though hedging mitigates risk to certain extent - TMIPL has a significant exposure to the forex market as 40-50% of its total revenues are generated through exports, against almost 25-30% of raw material procurements from international markets. Its margins are susceptible to unprecedented foreign currency fluctuations, and despite hedging, the sharp movements in forex rates resulted in a sizeable forex loss of Rs. 5.81 crore in FY2018. However, the company reported a forex gain of Rs. 6.72 crore in FY2019.

Exposure to high customer and geographical concentration risks - Around 65-70% of TMIPL's revenues over the last three years were accounted for by sales to related entities, Tessitura Monti Spa (Italy), Laguna Clothing Private Limited (LCPL) and Aurora Apparels Private Limited (AAPL). Another 10% is accounted for by direct sales to overseas markets, orders for which are secured by TMIPL's parent entity. The company is, thus, exposed to customer concentration risks, given the high proportion of sales to related entities. Reduced offtake from Group companies owing to weak markets will impact its operations. The company also remains exposed to high geographical concentration risks as majority of its

exports cater to the end-market in Europe. TMIPL's export sales declined marginally YoY till FY2019, amid subdued demand conditions in Europe.

Liquidity position

TMIPL had external term loans of Rs. 15.03 crore on its books as on March 31, 2018; of which, Rs. 4.31 crore is scheduled to be repaid in FY2020, Rs. 3.73 crore in FY2021 and Rs. 1.56 crore in FY2022. Limited cash buffer in terms of Un-utilised ~18% working capital sanctioned facility and free cash of Rs. 1.91 crore as on March 31, 2019 provides comfort to the liquidity profile of the company to certain extent. However, the company's operations remain highly working capital intensive, as indicated by NWC/OI of 53.78% in FY2019. The company's ability to improve profitability as well as cash accruals remains key for the improvement in its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology Rating Methodology for Entities in the Indian Textile Industry – Fabric Making
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financials

About the company

Tessitura Monti India Private Limited is a closely-held subsidiary of the Italian firm, Tessitura Monti SPA (erstwhile Gruppo Tessile Monti Spa). The company manufactures premium cotton shirt fabrics. It 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 metre of fabric per annum. The total feasible manufacturing capacity for dyed unfinished fabric stands at ~12 million metre per annum, with the company having a finishing/processing capacity of 8 million metre per annum.

The company achieved a net profit of Rs. 6.83 crore on an OI of Rs. 247.45 crore in FY2019, against a net loss of Rs. 1.94 crore on an OI of Rs. 244.57 crore in FY2018.

Key financial indicators

	FY2018 Audited	FY2019 Provisional
Operating Income (Rs. crore)	244.57	247.45
PAT (Rs. crore)	-1.94	6.83
OPBDIT/ OI (%)	7.87%	5.25%
RoCE (%)	1.68%	7.37%
Total Debt/ TNW (times)	1.18	0.97
Total Debt/ OPBDIT (times)	5.95	7.72
Interest Coverage (times)	3.27	2.13
NWC/ OI (%)	54.98%	53.78%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Sr. No.	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017		
					May 2019	November 2018	March 2018	March 2017	February 2017	
1	Term Loans	Long-term	15.00	15.03	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	
2	Fund-based Working Capital Limits	Short-term	105.00	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	-	
3	Non-fund Based Limits	Short-term	14.00	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	-	
4	Unallocated Limits	Long-term/ Short-term	16.00	-	[ICRA]BB+ (Stable) / [ICRA]A4+	[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

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	October 2015	-	July 2020	6.25	[ICRA]BB+(Stable)
NA	Term Loan 2	August 2017	-	March 2025	8.75	[ICRA]BB+(Stable)
NA	Fund-based Limits				105.00	[ICRA]A4+
NA	Non-fund Based Limits				14.00	[ICRA]A4+
NA	Unallocated Limits				16.00	[ICRA]BB+(Stable)/ [ICRA]A4+

Source: Tessitura Monti India Private Limited

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