March 23, 2017

Eurotex Industries and Exports Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Non-Fund Based Limits	11.00	[ICRA]A4+ re-affirmed
Fund Based Limits	52.10	[ICRA]BB+ re-affirmed; Outlook revised to 'Negative' from 'Stable'
Unallocated Limits	20.90	[ICRA]BB+/[ICRA]A4+ re-affirmed; Outlook revised to 'Negative' from 'Stable'
Total	**84.00**	

*Instrument Details are provided in Annexure-1

ICRA has re-affirmed the long-term rating to the Rs. 2.60 crore (revised from Rs. 8.01 crore)[1] term loans and the Rs. 49.50 crore long-term, fund-based working capital limits of Eurotex Industries and Exports Limited ('Eurotex' or 'the company')[2] at [ICRA]BB+ (pronounced ICRA double B plus). ICRA has also re-affirmed the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 11.00 crore short-term, non-fund-based working capital limits of the company. ICRA has further re-affirmed the ratings of [ICRA]BB+ (pronounced ICRA double B plus) / [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 20.90 crore (revised from Rs. 15.49 crore) long-term / short-term, unallocated limits of the company. The outlook on the long-term rating has been revised to 'Negative' from 'Stable'.

Detailed rationale

The revision in the outlook factors in the sustained weakness in the company's operating performance over the past two years owing to volatility in cotton and cotton yarn prices impacting the company's margins. Coupled with labour issues at its factory in Kolhapur, this led to a lock-out in the unit for nearly four months during the current fiscal. Though the lock-out has been lifted and the factory has been operating at full capacity, ICRA expects the operating performance of the company to remain subdued over the medium term on account of weak yarn demand outlook and falling yarn realisations. The re-affirmation of the ratings factors in the commitment by the promoters to extend financial support to the company, as and when required, in a timely manner; promoters' commitment has been demonstrated during 9M FY2017, wherein they infused Rs. 7 crore to support the cash flows of the company. Timeliness of such cash flow support will be a key rating sensitivity. The ratings continue to factor in the longstanding experience of the promoters in the textile industry, well established position of the company as a cotton yarn exporter with geographically-diverse customer base. The presence in value-added products like gassed yarn and compact yarn, logistical advantages due to proximity to cotton growing areas and to Mumbai port for exports, as well as its comfortable capital structure are other rating factors. The ratings continue to be constrained by the cyclical nature of business, commodity nature of the final product leading to low margins in a highly competitive and working capital intensive industry. The stretched debt coverage indicators, commodity price risk posed by the holding of high raw material inventory, higher power and labour costs in Maharashtra affecting the company's operations are constraining factors too. Regulatory risks in the form of changing Government policies with respect to export of cotton and cotton yarn are other rating concerns.

Going ahead, the ability of the company to smoothly carry out the operations in its manufacturing unit, and reduce power and employee expenses is key to improve profitability and credit metrics of the

[1] Rs. 100 lakh = Rs. 1 crore = Rs. 10 million
[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

company. While the company has currently deferred its capital expenditure plan in the wake of weak demand conditions and due to delay in sale of assets by the promoters (promoters planned to infuse funds into the company from the sale proceeds), any large capital expenditure without adequate fund infusion into the company shall impact the currently comfortable capital structure. The company is also in the process of monetising certain non-core assets (residential project being developed in joint development with a builder on a land parcel owned by the company at Kolhapur, with cash flows to the extent of Rs. 14 crore expected to be accrued to the company by FY2020). The timely completion of these transactions will be key for the future credit profile of the company.

Key rating drivers

Credit Strengths

- Vast experience of the promoters in the textile industry, mainly in spinning and exports of cotton yarn.
- Has an established position as a cotton yarn exporter with a well established export network; geographically diverse customer base.
- Presence in value-added products like gassed yarn and compact yarn
- Lower logistics costs from proximity to cotton growing area and to Mumbai port for exports
- Capital structure continues to remain comfortable with a gearing of 0.86 times as on December 31, 2016 on account of reduction in debt levels.

Credit Challenges

- Commodity nature of final product leading to low margins in a highly competitive industry
- Current weak operating performance owing to subdued cotton yarn prices; higher cost of production (increasing power and employee expenses) impacting competitiveness of the company
- Lock-out at company's factory at Kolhapur in FY2017, following labour issues, has impacted export volumes in the nine months of current fiscal, further constraining the operating performance.
- Working capital intensive nature of the business due to bulk purchase of cotton during the harvesting season and stocking for lean season; high raw material inventory also poses commodity price risk
- Regulatory risk in the form of changing government policies with respect to export of cotton and cotton yarn, though currently existing central and state government incentives boost cash flows.

Detailed description of key rating drivers:

Eurotex's operating income as well as profitability has been impacted by the continuous decline in cotton yarn prices and subdued volumes owing to weak global demand over the past two years. The lock-out in the manufacturing unit in the current fiscal from May 2016 to September 2016, following labour unrest has further deteriorated the operating performance and the company has recorded an operating loss of Rs. 6.22 crore for the nine months of FY2017. Although the unit has now (from January 2017) started operating at full capacity post lifting of the lock-out in September 2016, lower export volumes coupled with fixed overheads incurred during the period of lock-out is likely to impact the turnover and profitability in FY2017. Besides, presence in a highly competitive and working capital intensive industry and commodity nature of the final product has dented the profit margins. Furthermore, the operations of the company also remain exposed to the regulatory risk because of changing Government policies with respect to export of cotton and cotton yarn.

Nevertheless, the company's long track record in the cotton yarn spinning industry backed by its established relationships with its customers lends some comfort. Presence of the company in value added products coupled lower logistics costs with proximity to cotton growing area and to Mumbai port for exports gives an edge over its peers. Reduction in debt levels following repayment of term loans and lower working capital borrowings following slowdown in production has supported the capital structure which continued to remain comfortable with a gearing of 0.86 time as on December 31, 2016 (0.72 time as on March 31, 2016), albeit erosion of net-worth following net losses incurred in the past two years.

Analytical approach: For arriving at the ratings, ICRA has taken into account the debt servicing track record of NG, its business risk profile, financial risk drivers and management profile.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

Rating Methodology for Indian Textiles Industry – Spinning
http://www.icra.in/Files/Articles/Textiles%20Industry%20%E2%80%93%20Rating%20Methodology.pdf

About the company:

Eurotex Industries and Exports Limited ('Eurotex' or 'the company') is promoted by the Patodia Group ('the group') which was founded by Shri B. L. Patodia in 1938. The group has over 65 years of experience in the textile industry. The company commenced operations in 1989 by setting up a 100% export oriented spinning unit with an installed capacity of 19,200 spindles at Gokul Shirgaon in Kolhapur district of Maharashtra. Over the years with modernisation and expansion programmes, the company has set up a spinning and knitted fabric manufacturing unit with an installed capacity of 61,632 spindles (including 29,448 spindles of compact yarn), 51 Two-for-one-Twisters (TFOs) and 24 circular knitting machines. The company has power back-up for the whole plant in the form of a captive power plant of 7MW capacity. The company has been enjoying a 'Trading House' status with the Government of India.

Eurotex recorded a net loss of Rs. 5.38 crore on an operating income of Rs. 233.92 crore for the year ending March 31, 2016. As per provisional financials for nine months, the company has recorded a net loss of Rs. 13.28 crore on an operating income of Rs. 115.66 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (2016)			Chronology of Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2016**	**Date & Rating in FY2015**	**Date & Rating in FY2015**
				March 2017	**March 2016**	**March 2015**	**April 2014**
1	Term Loans	Long Term	2.60	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-(Stable)
2	Cash Credit/ Export Packing Credit	Long Term	49.50	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB-(Stable)
3	Letter of Credit/Bank Guarantee/Credit Exposure Limit/ Forex Treasury Limit	Short Term	11.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3
4	Unallocated Limits	Long Term & Short Term	20.90	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BB+ (Stable) / [ICRA]A4+	-	-

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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Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Term Loan	Oct-13	14.85%	Sep-20	2.60	[ICRA]BB+ (Negative)
Cash Credit/ Export Packing Credit	-	-	-	49.50	[ICRA]BB+ (Negative)
Letter of Credit/Bank Guarantee/Credit Exposure Limit/ Forex Treasury Limit	-	-	-	11.00	[ICRA]A4+
Unallocated Limits	-	-	-	20.90	[ICRA]BB+ (Negative) / [ICRA]A4+

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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