October 03, 2017

Eurotex Industries and Exports Limited

Summary of Rated Instruments

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating to the Rs. 2.60 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] from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BB (pronounced ICRA double B). ICRA has also revised the short-term rating from [ICRA]A4+ (pronounced ICRA A four plus) to [ICRA]A4 (pronounced ICRA A four) to the Rs. 11.00 crore short-term, non-fund based working capital limits of the company. ICRA has further revised the ratings to the Rs. 20.90 crore long-term / short-term, unallocated limits of the company from [ICRA]BB+ / [ICRA]A4+ to [ICRA]BB and [ICRA]A4. The outlook on the long-term rating is Negative.

Rationale

The revision in ratings factors in the sustained weakness in the company's operating performance in FY2016, FY2017 and Q1 FY2018 owing to volatility in cotton and cotton yarn prices and sluggish demand conditions impacting profitability. Coupled with labour issues at its factory in Kolhapur (Maharashtra), this led to a lockout in the unit for nearly four months during FY2017. Though the lockout 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 ratings continue to be constrained by the stretched debt coverage indicators as indicated by negative interest coverage ratio of 0.59 time as on June 30, 2017, and commodity price risk posed by the holding of high raw material inventory (as indicated by inventory days of 128 days as on March 31, 2017). 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.

The ratings continue to factor in the longstanding experience of the promoters in the textile industry, and the well-established position of the company as a cotton yarn exporter with a geographically diverse customer base. ICRA also notes its presence in value-added products like gassed yarn and compact yarn as well as logistical advantages due to proximity to cotton growing areas and to Mumbai port for exports.

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 improving its profitability and credit metrics. 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

[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.*

from the sale proceeds), any large capital expenditure without adequate fund infusion into the company will impact the 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. ICRA also notes the commitment by the promoters to extend financial support to the company, as and when required, in a timely manner. The promoters' commitment was demonstrated in FY2017, when 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.

Key rating drivers

Credit strengths

- **Vast experience of the promoters in the textile industry, mainly in spinning and exports of cotton yarn** – Incorporated in 1987, Eurotex is a spinning unit with an installed capacity of 61,632 spindles, 51 Two for one Twisters (TFOs) and 24 circular knitting machines. Eurotex was promoted by the Patodia Group, founded by Shri B. L. Patodia. The Patodia Group has over 65 years of experience in the textile industry, which has helped the company in establishing its position in the industry.
- **Has an established position as a cotton yarn exporter with a well established export network; geographically diverse customer base -** Eurotex is an exporter of 100% cotton yarn. The company is also engaged in trading of cotton yarn in export markets. Cotton yarn accounts for ~90% of its total sales. Exports accounted for ~86% and ~78% of total sales in FY2017 and FY2016, respectively. The company has a well established and geographically diverse export network, with Korea, China, Guatemala, Egypt, Hong Kong, Germany and Bangladesh being its major export markets.
- **Presence in value-added products like gassed yarn and compact yarn** – The spinning unit produces a variety of yarn, which includes value added products such as compact yarn and gassed yarn. The company also manufactures knitted fabrics, which accounts for ~3-4% of its total sales.
- **Lower logistics costs from proximity to cotton growing area and to Mumbai port for exports -** The company derives locational advantages from its proximity to cotton growing areas (Kolhapur, Maharashtra), which reduces raw material procurement risks and lower transportation expenses. Its Kolhapur (Maharashtra) plant also enjoys easy access to Mumbai/JNPT port for exports, thereby reducing logistics costs.

Credit weaknesses

- **Current weak operating performance owing to sluggishness in demand, higher cost of production impacting competitiveness -** 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 in FY2016 and FY2017. In Q1 FY2018 too, demand continued to remain sluggish amid high cotton yarn prices in the domestic market. Consequently, the company reported a net loss of Rs. 3.46 crore on an operating income of Rs. 60.12 crore. Further, high power and fuel cost combined with higher labour expenses (which together accounts for ~20% of the total output) resulted in high operating costs that also put pressure on the operating profitability. Operating losses incurred in FY2017 and in Q1 FY2018 has further strained the interest coverage indicator, which remained negative at 0.58 time as on March 31, 2017 and 0.59 time as on June 30, 2017.
- **Lockout at company's Kolhapur factory in FY2017, following labour issues, impacted export volumes in FY2017, further constraining the operating performance -** Performance of the company in FY2017 remained constrained by the labour issues faced at company's plant. The production volumes were lower than normal during the December 2015 to April 2016 period,

following the labour unrest, which eventually led to lockout of the unit from May 2016 to September 2016. Although the unit started operating at full capacity from January 2017, post lifting of the lockout in September 2016, lower export volumes coupled with fixed overheads incurred during the lockout period impacted the performance in FY2017.

- **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 -** Cotton yarn spinning is a working intensive business on account of considerable inventory holding requirements. The company's policy is to stock inventory of raw cotton for meeting requirements till the beginning of the next cotton season, typically up to the end of October. Working capital intensity (as measured by NWC/OI), however, declined to ~17% from the levels of 20-25% in the past (up to FY2013) because of improved inventory management by the company. As on March 31, 2017 the inventory levels were higher as indicated by inventory days of 128 days over 76 days as on March 31, 2016, following resumption of manufacturing operations as well as high raw material inventory held in anticipation of increase in demand.
- **Regulatory risk in the form of changing Government policies with respect to export of cotton and cotton yarn** - The company's business remains susceptible to regulatory policies of local governments (Central and state governments in India) as well as of the governments of importing countries. Any curb by the Government on cotton yarn exports, from which Eurotex gets majority of its business, could have an impact on its revenues and profitability.

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

Links to applicable criteria:
[Corporate Credit Rating – A Note on Methodology]
[Rating Methodology for Indian Textiles Industry – Spinning]

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 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 enjoys power back-up for the whole plant in the form of a captive power plant of 7MW capacity.
In FY2017, Eurotex reported a net loss of Rs. 12.05 crore on an operating income of Rs. 185.39 crore, as compared to a net loss of Rs. 5.52 crore on an operating income of Rs. 233.78 crore during the previous year. As per the unaudited financials of Q1 FY2018, Eurotex reported a net loss of Rs. 3.46 crore on an operating income of Rs. 60.23 crore.

Key Financial Indicators (Audited)

Particulars	FY2016	FY2017
Operating income (Rs. crore)	233.78	185.39
PAT (Rs. crore)	-5.52	-12.05
OPBDIT/ OI (%)	2.15%	-2.33%
RoCE (%)	1.52%	-4.48%
Total Debt/ TNW (times)	0.72	0.96
Total Debt/ OPBDIT (times)	8.30	-10.32
Interest coverage (times)	0.65	-0.58
NWC/ OI (%)	17%	19%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;
NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth
Source: Financial statements of Eurotex and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Oct-17	Mar-17	Mar-16	Mar-15
1	Term Loans	Long Term	2.60	[ICRA] BB (Negative)	[ICRA] BB+ (Negative)	[ICRA] BB+ (Stable)	[ICRA] BBB- (Stable)
2	Cash Credit/ Export Packing Credit	Long Term	49.50	[ICRA] BB (Negative)	[ICRA] BB+ (Negative)	[ICRA] BB+ (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] A4+	[ICRA] A3
4	Unallocated Limits	Long Term & Short Term	20.90	[ICRA] BB (Negative)/ [ICRA]A4	[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

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-21	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

Source: Eurotex

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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.
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