Eurotex Industries and Exports Limited

May 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loan	2.60	1.88	[ICRA]BB-(Negative); downgraded from [ICRA]BB(Negative)
Fund Based –CC/EPC	49.50	49.50	[ICRA]BB-(Negative); downgraded from [ICRA]BB(Negative)
Non -Fund Based –LC/BG/ Credit Exposure Limit/ Forex Treasury Limit	11.00	11.00	[ICRA]A4; reaffirmed
Unallocated Limits	20.90	21.62	[ICRA]BB-(Negative); downgraded from [ICRA]BB (Negative)/ [ICRA]A4 reaffirmed
Total	**84.00**	**84.00**	-

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating assigned to the Rs. 1.88-crore[1] (earlier Rs. 2.60 crore) 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] to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]BB (pronounced ICRA double B). ICRA has reaffirmed the short-term rating at [ICRA]A4 (pronounced ICRA A four) assigned 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. 21.62-crore (earlier Rs. 20.90 crore) long-term / short-term, unallocated limits of the company to [ICRA]BB-/[ICRA]A4 from [ICRA]BB/[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 9M FY2018, owing to subdued demand, especially in the exports markets amid high raw cotton prices. The high prices led to losses in 9M FY2018, to the extent of Rs. 9.95 crore on an operating income of Rs. 186.02 crore over a net loss of Rs. 13.81 crore with an operating income of Rs. 115.12 crore in 9M FY2017. The ratings continue to be constrained by the stretched debt coverage indicators and commodity price risk posed by the holding of high raw material inventory (as indicated by inventory days of 88 days as on December 31, 2017). Higher power and labour costs have also affected the company’s operations in the current fiscal. However, the recent Maharashtra State Textile Policy 2018-23, wherein a power subsidy of Rs. 2 per unit is offered is expected to provide some respite on the power costs front. Further, regulatory risks in the form of changing Government policies with respect to export of cotton and cotton yarn are other rating concerns. Though the labour unrest has fully settled and the factory has been operating at full capacity, revival in demand outlook for yarn remains critical for any meaningful recovery in the company’s operating performance.

[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.*

The ratings, however, continue to favourably factor in the established 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 the logistical advantages due to proximity to cotton growing areas and to the Mumbai port for exports.

ICRA also notes that to improve its liquidity profile, the company is in the process of monetising certain non-core assets, which is expected to realise cash flows to the extent of ~Rs. 19 crore by FY2020. Timely completion of these transactions will be crucial, given present operations being loss making. However, the demonstrated commitment by the promoters to extend financial support to the company, as and when required, has provided distress support whenever necessary and ICRA expects the same to continue, going forward.

Outlook: Negative

ICRA believes Eurotex Industries and Exports Limited's operating performance is likely to remain subdued over the medium term due to weak yarn demand outlook and falling yarn realisations. Continued losses incurred may further exert pressure on the liquidity profile. The outlook may be revised to Stable if the company is able to bring in requisite funds to support its liquidity profile and turn around its operations through better cost management.

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.

Established player 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 cotton yarn in export markets. Cotton yarn accounts for ~90% of its total sales. Exports accounted for ~86% and ~53% of total sales in FY2017 and 9M FY2018, respectively. The company has a well-established and geographically diverse export network, with Korea, Guatemala, Germany, Egypt, and Bangladesh being its major export markets.

Logistical advantage due to its proximity to cotton growing area and to Mumbai port for exports -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 ~2-3% of its total sales. The company derives locational advantages from its proximity to cotton growing areas (Kolhapur, Maharashtra) and easy access to the Mumbai/JNPT port for exports, thereby reducing raw material procurement risks and lower transportation and logistics cost.

Credit challenges

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 FY2018 too, demand continued to remain sluggish amid high cotton yarn prices in the domestic market. Consequently, in 9M FY2018 the company reported a net loss of Rs. 9.95 crore on an operating income of Rs. 186.02 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 9M

FY2018 has further strained the interest coverage indicator, which remained negative at 1.00 time as on December 31, 2017.

Cascading impact of lockout at Kolhapur factory in FY2017 led to downturn in operation in FY2017 and FY2018; although operations have normalised at present – The company's performance remained constrained by the labour issues faced at its Kolhapur plant in FY2017. 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–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 and FY2018.

Working capital intensive nature of the business due to bulk purchase of cotton during the harvesting 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. 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. Inventory days as on December 2017 stood at 88 days.

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 Methodology
Rating Methodology for Indian Textiles Industry – Spinning

About the company:

Eurotex Industries and Exports Limited is promoted by the Patodia 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 with a 100% export oriented spinning unit. The factory at Gokul Shirgaon in Kolhapur district of Maharashtra had 19,200 spindles. Over the years, with modernisation and expansion programmes, the company set up a spinning and knitted fabric manufacturing unit with 61,632 spindles (including 29,448 spindles of compact yarn), 51 TFOs and 24 circular knitting machines. The company enjoys power back-up for the whole plant with a 7MW captive power plant.

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 9M FY2018, Eurotex reported a net loss of Rs. 9.95 crore on an operating income of Rs. 184.02 crore.

Key financial indicators (audited)

	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%	(4.43%)
Total Debt/ TNW (times)	0.72	1.01
Total Debt/ OPBDIT (times)	8.30	(10.79)
Interest coverage (times)	0.65	(0.58)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May-18	Date & Rating in FY2018 Oct-17	Date & Rating in FY2017 Mar-17	Date & Rating in FY2016 Apr-16
1	Term Loan	Long Term	1.88	1.88	[ICRA]BB- (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)
2	Cash Credit(CC) /Export packing Credit (EPC)	Long Term	49.50	-	[ICRA]BB- (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)
3	Letter of Credit(LC)/Bank Guarantee(BG)/ Credit Exposure Limit/ Forex Treasury Limit	Short Term	11.00	-	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+
4	Unallocated Limits	Long Term & Short Term	21.62	-	[ICRA]BB- (Negative)/ [ICRA]A4	[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: 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	Oct-13	14.85%	Sep-21	1.88	[ICRA]BB-(Negative)
NA	CC/EPC	NA	NA	NA	49.50	[ICRA]BB-(Negative)
NA	LC/BG/Credit Exposure Limit/ Forex Treasury Limit	NA	NA	NA	11.00	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	21.62	[ICRA]BB-(Negative)/[ICRA]A4

Source: Eurotex Industries and Exports Limited

ANALYST CONTACTS

K Ravichandran
+91 44 45964301
ravichandran@icraindia.com

Rupa Pandey
+91 22 61143456
rupa.pandey@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Nijara Kalita
+91 22 6114 3455
nijara.kalita@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999