Press Release

Texport Syndicate (India) Limited

February 05, 2020

Rating

Sr. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1	Long Term Fund based (Term Loan)	35.56	IVR BBB/ Stable Outlook; [IVR Triple B with Stable Outlook]
2	Short Term Fund based (PCFC/ EPC)	140.75*	IVR A3; [IVR A Three]
3	Short Term Non-Fund based (BG/LC)	47.25**	IVR A3; [IVR A Three]
Total		**223.56**	

** Including Proposed limit of INR 10.37.*
*** Including Proposed limit of INR 4.16.*

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters, reputed clientele albeit with concentration risk, good order book position, diversified product portfolio, global presence and Government steps in promoting the textile sector. The rating however is constrained by marginal growth in operations, moderate gearing and stretched debt coverage indicators, increased collection period & inventory days, competitive nature of the industry, Government policies & withdrawl of certain incentives post implementation of GST and forex risk.

Key Rating Sensitivities:

- **Upward Rating Factor –** Substantial & sustained improvement in entity's scale of operations leading to improvement in debt protection metrics & overall gearing. may lead to a positive rating action.
- **Downward Rating Factor –** Decline in debt protection metrics or a rise in unhedged foreign currency exposure position may lead to a negative rating action.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters

Texport Syndicate India Limited (TSIL) was promoted by Mr. Rajendra Goenka, CMD of the company who has 46 years of experience in the textiles business &exports. He looks after marketing of Woven Garments division. He is supported by his family members, Mr. Sunil Goenka (Brother, looks after overall production and marketing of Knits division), Mr. Amit Goenka (Son, handles production of Woven garments), Mr. Anish Goenka (Son, assists in marketing and production of Woven and Knits division & is developing the use of Information Technology in the field of Garments Manufacturing and its products to achieve faster and better marketing system) who have significant experience in the textile industry.

Reputed Clientele albeit with concentration risk

TSIL is a 100% export oriented garment manufacturing company. It manufactures for leading brands owned by some of the largest fashion houses across Europe and the US. The list of their clientele include Aeropostale, Zara, Bershka, H&M, Arrow, GAP, Walmart, Mothercare, Hurley, American Eagle Outfitters etc. to name a few.

Almost 95% of the Total Sales came from exports in FY19. In FY19, top 5 export customers contributed to 58% of total exports & top 5 local customers, 93% of total domestic sales.

Good Order Book position

The company has orders on hand worth INR 143.68 Crore as at November 1, 2019 for next 5 months; of which Exports are INR 137.56 Crore & Domestic sales INR 6.12 Crore.

Apart from this, the Company also expects further orders worth INR 90 Crore in the months of February & March 2020. These orders constitute 56% of FY19 turnover. The said order book comprises of orders from reputed clients such as Primark, Ralph Lauren, AEO Management Co., Marks & Spencer PLC, Max Retail division (domestic) & various others.

Diversified product portfolio

The group has a diversified portfolio of products viz. Shorts, Pants, Shirts, Blouses, Sleepwear, Polo’s, Sweatshirts, Jackets etc. which are produced for men, women & kids in the woven & knit category.

Key Rating Weaknesses

Decline in EBITDA margin; However, revenue remains stable

The EBITDA margin has reduced from 6.93% in FY18 to 5.25% in FY19. However, Infomerics' expects the EBITDA margin to improve in FY20. The EBITDA margin has improved to 7.66% for the half year ended September 30, 2019. The Company has maintained its level of Total Revenue from operations at INR ~417 Crore for FY19 indicating a marginal growth of ~2% as compared to previous year's INR 408 Crore. The overall low growth was due to exports which rose by only 1.41% whereas domestic sales recorded a growth of 53.42% compared to last year FY18. The export incentives declined from INR 33.10 Crore in FY18 to INR 27.27 Crore in FY19 in spite of the marginal increase in sales. The low growth in exports can be mainly attributed to the implementation of GST & higher trade barriers compared to other countries in EU & US.

The EBITDA has declined from INR 28.29 Crore in FY18 to INR 21.89 Crore in FY19, a fall by 22.63% due to increased raw material price.

Moderate gearing and stretched debt coverage indicators

The overall gearing ratio of the Company improved from 1.20x in FY18 to 1.14x in FY19. The long term debt to equity ratio stood at 0.32x as on March 31, 2019. The interest coverage ratio was moderate at 1.60x in FY19 against 2.08x in FY18 due to fall in EBITDA level. Total debt to GCA (in years) stood at 14.52 years in FY19, deteriorated from 10.09 years in FY18 owing to increase in debt for the on-going project & fall in EBITDA level.

Increased Collection period & Inventory days leading to increase in operating cycle

The average collection period has risen from 83 days in FY18 to 93 days in FY19. The company may be exposed to counterparty credit risk if it is not able to realize its receivables within time.Also, the average Inventory days have gone up from 49 days in FY18 to 59 days in FY19. However, the average Creditor days have almost remained same at 124 days in both years. This has led to a considerable increase in the Operating Cycle of the company from 8 days in FY18 to 28 days in FY19; Any further increase in the cash conversion cycle cam lead to stretched liquidity.

Competitive nature of the industry

Indian exporters face higher trade barriers compared to countries like Bangladesh, Vietnam and Pakistan in key markets such as the United States (US) and the European Union (EU) due to high tariffs & high labour costs. Average tariffs levied on Indian textile exports are around 5.9% in the EU, while it is 6.2% in the US, compared to 0% and 3.9% on exports from Bangladesh. India’s garments are thus 10-15% costlier than other competing countries.

Forex risk

With major portion of sales coming from exports (almost 95% in FY19), TSIL's profitability remains exposed to foreign exchange currency fluctuations. Working Capital bank facilities availed in foreign currency offer a natural hedge to a certain extent. Remaining unhedged portion of the receivables remain exposed to forex risk. As at 31-Mar-2019, INR 58.74 Crore (Receivable) of the foreign currency exposure was unhedged.

However, as at 30-Sep-2019, none of the foreign currency exposure is unhedged.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Company has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The average utilization of working capital limits remained at 83.85% during the 12 months ended October 31, 2019 supported by above unity current ratio. The cash accruals are adequate to service its debt obligations. Overall liquidity position is Adequate.

About the company

Texport Syndicate India Limited [TSIL] was established as a Partnership Firm 'Texport Syndicate' in 1978, closely held by Goenka family& headquartered in Mumbai. Subsequently, it got converted into Public Limited company as TSIL on April 5, 2005. It has been promoted by Mr. Rajendra Goenka, CMD of the company who has 46 years of experience in the textile business& exports and continues to oversee the business till date. He is supported by his family members, Mr. Sunil Goenka (Brother), Mr. Amit Goenka (Son), Mr. Anish Goenka (Son) and Mr. Shashi Sehgal (Legal Advisor) who have significant experience in the textile industry. TSIL is mainly engaged in manufacturing of woven and knitted fabrics. Various garments like Shorts, Pants, Shirts, Blouses, Sleepwear, Polos, Sweatshirts, Jackets etc. are produced for men, women & kids in the woven & knit category.

Financials (Standalone)

INR in Crore

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	408.28	416.66
EBITDA	28.29	21.89
PAT	4.36	6.74
Total Debt	154.05	156.23
Tangible Net Worth	128.58	136.95
EBIDTA Margin (%)	6.93	5.25
PAT Margin (%)	1.06	1.60
Overall Gearing ratio (x)	1.20	1.14

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities (Long-Term)	Term Loan	35.56	IVR BBB/ Stable Outlook	--	--	--
Fund Based Facilities (Short-Term)	Working Capital limit (PCFC/EPC/ FDB)	140.75*	IVR A3	--	--	--
Non-Fund Facilities (Short-Term)	Bank Guarantee (BG)/ Letter of Credit (LC)	47.25**	IVR A3	--	--	--
	Total	**223.56**				

** Including Proposed limit of INR 10.37.*
*** Including Proposed limit of INR 4.16.*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Sr. No.	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Fund Based Term Loan	--	--	Feb-2023 - July-2027	35.56	IVR BBB/ Stable Outlook
2	Fund Based Working Capital limit (PCFC/EPC/ FDB)	--	--	--	140.75*	IVR A3
3	Non-Fund Based Bank Guarantee/ Letter of Credit	--	--	--	47.25**	IVR A3
Total					**223.56**	

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