Press Release

Topline Commodities Pvt Ltd

August 17, 2020

Ratings

Sl. No.	Facilities	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long term Bank Facilities	55.15 (reduced from 58.40)	IVR B+; Stable (IVR Single B Plus with Stable outlook)	Revised from IVR BB-;Stable (Double B Minus with Stable Outlook)
2.	Short term Bank Facilities	1.67	IVR A4 (IVR A Four)	Reaffirmed
	Total	**56.82 (Rs Fifty Six crore and Eighty Two lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Topline Commodities Pvt Ltd (SOPL) takes into account weakening of financial risk profile marked by continuous net loss from operations coupled with cash loss during the last three accounting years and leveraged capital structure with depressed debt coverage indicators. The ratings further weaken from its small scale of operations, volatility in raw material prices, exposure to foreign currency risk, threats from import and weak financial risk profile marked by continues loss from operations with depressed coverage indicators and elongated operating cycle. However, these rating weakness are partially offset by long experience of the promoters in leather trading business and their continuous support, emergence of PU leather as an alternative and demand from OEMs.

Rating Sensitivities

Upward factors

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics on a sustained basis
- Infusion of capital and improvement in capital structure
- Improvement in liquidiy

Downward Factors

- Dip in operating income and/or profitability on a sustained basis

- Deterioration in working capital management affecting the liquidity
- Lack of support from the promoters

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long experience of the promoters in leather trading business

The current promoters of TPCL have more than two decades of experience in PU leather trading business. Prior to the manufacturing operations, Wonder décor and Wonder Rexine (Group companies) was engaged in the import and marketing of PU leather in Kolkata and Delhi respectively. The same has helped the promoters to develop a strong marketing network which can now be leveraged to market TPCL's products.

Emergence of PU leather as an alternative

Certain drawbacks of genuine leather, such as sticky feel and texture, are restraining its demand, paving the way for PU artificial leather. Surge in middle-class population, coupled with rising disposable income, is likely to present favorable opportunities for players in the local market. Another factor propelling its growth is low manufacturing cost as compared to natural leather. This has led to an increase in investments and is anticipated to help improve overall market penetration over the next couple of years.

Demand from OEMs

Value added synthetic leather products with superior finish and flexibility used by large foot wear manufacturers and automobile OEMs are supplied by a clutch of manufacturers that constitute the organized segment. Superior quality and wide range of products are the main attributes considered by OEMs while procuring synthetic leather. Further, global OEMs take anywhere between 1 to 1.5 years to select a supplier. High level of investments as well as the long time required to break into the top league has created entry barriers. TPCL has already tapped OEMs like Bata India Ltd and Tata International Ltd and is in the process of getting its sample approved by other large OEMs like VIP industries, Khadim, etc. Becoming a preferred supplier with these large OEMs would enable TPCL to gain a dominant market share in the organized segment and command higher margins.

However, demand from automobile OEMs and footwear manufacturer on a declining mode since last year on account of weaken economic condition, which further declined with the ongoing Covid-19 pandemic and thereby nationwide lock down.

Key Rating Weaknesses

Small scale of operations

The company started its operation in 2017 and its scale of operations continued to remain small with a turnover of ~Rs.45 crore in FY20 (Prov.). Due to initial teething problems and continued subdued economic scenario the company was in loss for past two fiscals and became EBITDA positive in FY20 (Prov.). However, due to high interest charges and depreciation there was cash loss in FY20 (Prov.).

Volatility in raw material prices

Polyurethane resin, raw material used in the production of PU leather is derived from TDI and MDI (petroleum products), which is subject to high volatility on account of price changes in crude derivatives.

Exposure to Foreign currency risk

Raw materials required for manufacturing PU leather, the most important one being PU resin is imported (from China mainly). The company does not take any forward cover or any other hedging mechanism. The same exposes the company to foreign currency fluctuation risk. During FY20 the company made a loss from foreign currency loss of Rs.0.12 crore as against a loss of Rs.0.81 crore in FY19.

Threats from import

The Indian synthetic leather sector is facing competition from the widespread availability of cheap imitation leather fabrics from China, but there is no government support to ward off this threat. However, the competition is intense in the generic segment supplied mostly by the unorganized segment where price plays a key role.

Weak financial risk profile marked by continues loss from operations with depressed coverage indicators and elongated operating cycle

The financial risk profile of the company has been weak marked by continuous loss from its operation with cash loss since initiation of commercial operation from 2017. Continuous loss led to negative net worth for the company as on the last three account closing date ending on March 31, 2020 (prov.). Further, interest coverage ratio has also been below unity in last three financial years. The company servicing its debt obligations from combination of non-operating income and unsecured loan from promoters. Operating cycle has been elongated to 156 days in FY20 with longer inventory period as the company stocks raw material to avoid price fluctuation with the change in crude oil price.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Poor

The liquidity position of the company is expected to remain poor in the near term due to adverse impact of Covid pandemic on its operations. Moreover, its highly utilized bank limits indicates limited liquidity buffer. This apart, the company ended up with a cash loss in last couple of years. Infomerics believes there will not be much improvement in the near term This could constrain the ability of the company to repay is debt obligations on a timely basis. However, there is a plan of infusion of unsecure loan from promoters and availment of capital subsidy which will help its debt repayment obligations in the range of ~Rs.11-14 crore during FY21-23.

About the Company

Kolkata (West Bengal) based Topline Commodities Pvt Ltd (TCPL) was incorporated in the year 1993 by one Poddar family who are the founders of Wonder group. Initially the company remained dormant for years. However, the promoters started its operation in March 2013 to setup a PU leather manufacturing unit in Dahej, Gujarat. The unit started its commercial operation from June 2017.

The Poddar family has business interest in leather industry and has various other companies which are engaged in supplying of imported artificial leather, flex printing, horizontal directional drilling and others. The other major companies of the promoters, are Wonder Images Pvt Ltd, Wonder Décor Pvt Ltd and Wonder Rexine Pvt Ltd.

Financials (Standalone): (Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	47.79	43.84
EBITDA	-6.22	1.84
PAT	-14.58	-8.49
Total Debt	87.03	91.04
Tangible Net worth	-12.86	-21.35
EBITDA Margin (%)	-13.02	4.20
PAT Margin (%)	-28.26	-18.74
Overall Gearing Ratio (x)	-11.07	-5.57

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Term Loan	Long Term	34.15	IVR B+/Stable	IVR BB- /Stable (May 21, 2019)	-	-
2	Cash Credit	Long Term	21.00	IVR B+/Stable	IVR BB- /Stable (May 21, 2019)	-	-
3	Bank Guarantee	Short Term	1.67	IVR A4	IVR A4 (May 21, 2019)	-	-

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:

Press Release

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	-	-	March 2023	34.15	IVR B+/Stable
Long Term Fund Based Limits – Cash Credit	-	-	-	21.00	IVR B+/Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	1.67	IVR A4