

Topline Commodities Pvt Ltd (TCPL)
May 21, 2019
Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Facilities- Term Loan	37.40	IVR BB- / Stable (IVR Double B Minus with Stable Outlook)	Assigned
Long Term Fund Based Facilities- Cash Credit	21.00	IVR BB- / Stable (IVR Double B Minus with Stable Outlook)	Assigned
Short Term Non Fund Based Facilities- BG	1.67	IVR A4 (IVR A Four)	Assigned
Total	60.07		

Details of Facilities are in Annexure 1
Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Topline Commodities Pvt Ltd (TCPL) derives comfort from longstanding experience of the promoters in leather trading business, government support in the form of subsidy, reputed clientele and emergence of polyurethane (PU) leather as an alternative to genuine leather. The ratings however, are tempered by volatility in raw material prices, exposure to foreign currency fluctuation risk and threats from import. Growth in scale of operations, profitability, efficient working capital management and gearing level are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description
Key Rating Strengths
Longstanding experience of the promoters in leather trading business

The promoters of TCPL have more than two decades of experience in PU leather trading business. The same has helped the promoters to develop a strong marketing network which can now be leveraged to market TCPL's products. Currently, Mr. Rajesh Poddar is at the helm of affairs of the company.

Government support

The company is entitled for interest subsidy (@6%) and capital subsidy under Amended Technology Upgradation Fund Scheme (ATUFS). Till March 31, 2019 TCPL has received

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interest subsidy aggregating to Rs.3.44 crore. Besides the company also expects subsidy on the VAT amount converted into GST till 2025. The total amount of subsidy expected (excluding already received) in next 2-3 years is about Rs.39 crore.

Reputed clientele

In its short span of operations, the company has roped in large and reputed players like Bata India Ltd and Tata international Ltd in its client portfolio. Further, the company is also in the process of getting its sample approved by other large companies.

Emergence of PU leather as an alternative to genuine leather

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 favourable 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.

Key Rating Weaknesses

Short track record of operations

TCPL began operations only in June 2017 and has less than two years of manufacturing experience. The scale of operations of the company also remained small and the management has stated to achieve a total operating income of Rs.55.47 crore in FY19.

Volatility in raw material prices

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

Exposure to foreign currency fluctuation 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. Absence of proper hedging mechanism same exposes the company to foreign currency fluctuation risk.

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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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The company is expected to generate moderate cash accruals as its operations stabilise over the medium term. The cash accruals are expected to meet the repayment obligations. Overall, liquidity is expected to remain moderate.

About the Company

Kolkata based Topline Commodities Pvt Ltd (TCPL) was incorporated in the year 1993 by the Poddar family under the guidance of Mr. Rajesh Poddar. TCPL is a part of 'Wonder' group of companies founded by the Poddar family. TCPL is engaged in manufacturing of PU leather with its plant located in Dahej, Gujarat which commenced its operation since June 2017.

Financials (Standalone):

	(Rs. crore)
For the year ended*	31-03-2018
	Audited
Total Operating Income	24.79
EBITDA	-6.17
PAT	-13.95
Total Debt (Excluding Sub. Loans)	65.72
Tangible Net worth	6.72
EBITDA Margin (%)	-24.90
PAT Margin (%)	-54.78
Overall Gearing Ratio (x) (Excluding Sub. Loans)	9.77

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	21.00	IVR BB-/ Stable Outlook	-	-	-
2.	Long Term Fund Based Limits - Term Loan	Long Term	37.40	IVR BB-/ Stable Outlook	-	-	-
3.	Short Term Non Fund Based Limits- Bank Guarantee	Short Term	1.67	IVR A4	-	-	-

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. 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.

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such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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–Cash Credit	-	-	-	21.00	IVR BB-/ Stable Outlook
Long Term Fund Based Limits – Term Loan	-	-	March, 2023	37.40	IVR BB-/ Stable Outlook
Short Term Non Fund Based Limits- Bank Guarantee	-	-	-	1.67	IVR A4