

## Tricot Industries Private Limited

### Ratings

Facilities	Amount (Rs. Million)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	250.00	<b>CARE-NP BB+ [Double B Plus]</b>	<b>Assigned</b>
Short Term Bank Facilities	350.00	<b>CARE-NP A4+ [A Four Plus]</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>600.00 (Six Hundred Million Only)</b>		

*Details of Facilities in Annexure 1*

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BB+' to the long term bank facilities and 'CARE-NP A4+' to the short term bank facilities of Tricot Industries Private Limited (TIPL).

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TIPL are constrained by its leveraged capital structure and moderate debt service coverage indicators in FY23 (Unaudited; FY refers to the twelve-month period ending mid-July) owing mainly to relatively high working capital debt levels vis-à-vis scale coupled with accumulated historical losses and modest, albeit improving, cash accruals from operations during FY23. Majority of TIPL's income is through exports, leading to dependence on duty concessions granted by different countries to Nepal for exports of cashmere products from Nepal, any adverse change in which could lead to increased pressure on TIPL's income and profitability margins, particularly due to competition from larger players from other countries which offer more competitive pricing. The ratings also factor in TIPL's working capital intensive nature of operations, exposure to volatile raw material prices, and foreign exchange rate fluctuations.

The ratings, however, derive strength from TIPL's established track record of operations along with strong promoters with TIPL being part of Golyan group, improving financial performance trend of the company over FY21-FY23 marked by sustained growth in total operating income along with fairly steady profitability margins. The ratings also factor in TIPL's diversified product profile in cashmere products and favourable government policies stimulating export sales.

*Going forward, ability of the company to maintain growth in its operations while sustaining its profitability margins, rationalization of debt levels through efficient working capital management leading to improvement in capital structure and coverage indicators will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Leveraged capital structure with moderate debt coverage indicators

The capital structure of the company stood leveraged as reflected from total gearing ratio of the company of 3.86x at the end of FY23, although improved from 7.65x at the end of FY22. The improvement in overall gearing was owing to improved tangible net worth supported by accretion of profits to reserves in FY23. The tangible net worth of the company had been relatively modest vis-a-vis debt levels amid accumulated losses in the past. However, as indicated by the improving profitability trend of the company in the last three fiscal years, sequential improvement in the capital structure is likely to sustain going forward as well. TIPL's interest coverage ratio stood moderate at 1.87x in FY23 (FY22: 2.10x). Total debt/ GCA for FY23 was 8.38x which improved from 23.11x in FY22 aided by improved cash generation during the year.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and other CARE publications

**Working capital intensive nature of operations**

The operations of the company are working capital intensive in nature. TIPL is involved in manufacturing products by primarily importing raw materials from countries like China and Italy. The company has to make advance payments for the raw materials, has to keep adequate inventory for smooth operations and also extend reasonable credit to its dealers, which lead to elongated working capital cycle. TIPL generally allows two months credit period to its dealers, debtors turnover days was 40 days during FY23. The company keeps inventory for around 6-8 months and the inventory turnover was 225 days for FY23. Average creditor days of the company was 42 days in FY23. This leads to an overall operating cycle of the company of around 7.5 months leading to high reliance of the company on bank finance for meeting working capital needs.

**Income prospects remain vulnerable to duty regime of export countries and competition from other countries**

Nepal has been enjoying Generalised System of Preferences (GSP) on export of cashmere products to Europe and US which provides an impetus to export. Lifting of the special status granted by foreign countries especially by Europe and USA to Nepal may severely impact the sales as Nepali products will not be as competitive. TIPL's future business prospect hinge on continuity of GSP facility that developed countries have been providing to Nepal on exports and satisfactory generation of export revenue therefrom.

Nepalese cashmere industry is exposed to global competition from other countries which are often more competitive in pricing. Also, the export sales of the company is concentrated as top 10 customers contributed nearly 62% to the total sales during FY23. This exposes the company to losing a substantial customer base and revenue if, TIPL is not able to compete with other countries/local manufacturers supplying cashmere products to the focus export markets of TIPL.

**Raw material price volatility risk and susceptibility to adverse foreign exchange price movements**

Raw materials needed for making cashmere products by TIPL are majorly imported. Invoicing of the raw material is done in USD, which exposes TIPL to foreign exchange fluctuation risk. Also, a substantial portion of TIPL's raw materials is crude-derivative with highly volatile prices. Raw material cost continues to be the major cost component of TIPL as it constitutes around 80% of total cost of sales in FY23. Hence, any adverse movement in raw material price without any corresponding movement in finished goods price could adversely affect the profitability of the company. Profitability of the company will remain vulnerable to the company's ability to adequately pass through changes in raw material prices to the finished products and effectively managing the foreign exchange fluctuation risks related to raw materials.

**Exposure to volatile interest rate risk**

Sustained requirement for short-term working capital borrowings results in a high interest expense for TIPL. The company's interest rates are based on floating interest rate regime, where a certain premium is added to the quarterly base rate and interest rate is changed accordingly on quarterly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system which leads to change in interest rates. Hence, funding taken by the company remains exposed to volatile interest rate. Sustained high interest rates, as seen over the last year or so, have added to the interest burden of the company, squeezing its profitability and impacting its liquidity position.

**Key Rating Strengths****Established track record of operations along with strong promoters and experienced management team**

TIPL derives strength from the financial flexibility of its promoter group belonging to the Golyan Group. Golyan Group has diversified business presence in Nepal which includes manufacturing, hydroelectricity projects, international trade & services, banking, insurance, real estate, textile, hospitality, energy etc. The company is managed under the overall guidance of Mr. Shakti Kumar Golyan, Chairman, has wide experience in various business sectors and is one of the directors of Golyan Group of Industries.

He is also the Chairman of City Hotel Limited [CARE-NP BB+/A4+], director of Westar Properties Private Limited (residential property with 212 apartments introduced in 2008) and Managing Director of Westar Hotels Limited.

### Improving financial performance trend in FY23

During FY23, the total operating income (TOI) of the company grew by ~38% year-on-year to Rs. 523 Mn from Rs. 381 Mn in FY22 majorly on account of high demand from international market leading to a substantial surge in exports. TIPL majorly exports its products to Europe and USA which contributed around 89% of its total income in FY23 (FY22: 86%). PBILDT margin improved to 17.20% during FY23 from 13.34% in FY22 supported by increase in scale coupled with reduction in administrative expenses. Consequently, PAT margin of the company improved to 2.63% during FY23 from 0.25% during FY22. Despite global macroeconomic headwinds, export prospects remain supported by sustained demand from USA and Europe. Consequently, revenue growth momentum is expected to sustain over the near-term.

### Diversified product profile with niche market

TIPL specializes in fully fashion knitwear and woven products made from Cashmere, Merinos and Cashmere Blends. The company has been exporting its products to different countries which demonstrate its ability to produce yarns of international standards. With more than 15 active buyers, TIPL's diversified selection consists of customized sweaters, scarves, shawls, hats, blankets, and others to cater to both small and bulk-scale order requirements. With consistent investment in technology TIPL has carved a stable and niche market for itself in both local and foreign markets. Further, it has plans to enter Indian market by FY24 and increase its penetration level in existing markets as well through online sales venture. This is likely to augur well for company's income profile.

### Favourable government policies stimulating export sales

TIPL's revenue from export sales is supported by both domestic and foreign government policies. In order to boost exports from Nepal, Nepal government has announced incentives on exportable goods. Furthermore, on October 2022, GoN has announced to increase the cash subsidy on export incentives for certain products from FY23. Consequently, the export incentives that TIPL is eligible for has been revised to 4% for exports up to Rs. 500 Mn and 8% thereafter. This increase in export incentive by the government is expected to further boost export sales of cashmere products from Nepal. Government's continued thrust on increasing export from Nepal is likely to benefit manufacturers like TIPL leading to expansion of profit margin of TIPL. Given that, the ongoing pressure on government revenues amid declining revenue from import, the timely payment of export incentives could impact the cash flows of TIPL.

### About the company

Tricot Industries Private Limited (TIPL) is a private limited company established in the year 1999. Golyan Group and JV Partners set up Makalu Cashmere in 1999. In 2006, the Golyan group took over complete control of the company renaming it, Tricot Industries Private Limited. TIPL specializes in fully fashion knitwear and woven products made from Cashmere, Merinos and Cashmere Blends. The company has manufacturing unit in Biratanagar, Nepal.

Brief financials of TIPL for the past three years ended FY23 are given below:

For the year ended Mid-July	(Rs. Million)		
	FY21 (Audited)	FY22 (Audited)	FY23 (Provisional)
Income from Operations	299	381	523
PBILDT Margin (%)	14.45	13.34	17.20
Overall Gearing (times)	5.54	7.65	3.86
Interest Coverage (times)	1.96	2.10	1.87

Current Ratio (times)	0.74	0.78	1.52
Total Debt/Gross Cash Accruals (times)	15.92	23.11	8.38

#### Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. in Million)	Rating
Long Term Bank Facilities	Term Loan	250.00	CARE-NP BB+
Short Term Bank Facilities	Fund/Non-Fund Based Limit	350.00	CARE-NP A4+
<b>Total</b>		<b>600.00</b>	

#### Contact us

##### Analyst Contact

Ms. Poonam Agarwal

+977-01-4012630

[poonamagarwal@careratingsnepal.com](mailto:poonamagarwal@careratingsnepal.com)

Mr. Santosh Pudasaini

+977-01-4012628

[pudasaini.santosh@careratingsnepal.com](mailto:pudasaini.santosh@careratingsnepal.com)

##### Relationship Contact

Mr. Achin Nirwani

+977 9818832909

[achin.nirwani@careratingsnepal.com](mailto:achin.nirwani@careratingsnepal.com)

##### About CARE Ratings Nepal Limited:

CARE Ratings Nepal Limited (CRNL) is licensed by the Securities Board of Nepal w.e.f. November 16, 2017. CRNL is supported by CARE Ratings Limited through a technical services agreement to provide technical support in the areas such as rating systems and procedures, methodologies, etc. from CARE Ratings on an ongoing basis. The technical support shall ensure that CRNL has adequate resources to provide high quality credit opinions in Nepal.

Our parent company, CARE Ratings Limited commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).

##### Disclaimer

CRNL's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CRNL has based its ratings on information obtained from sources believed by it to be accurate and reliable. CRNL does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CRNL have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor 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 in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.