22 May 2024 Corporates

Textura Zrt.
Hungary, Retail

SCOPE

CCC NEGATIVE

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	6.8x	2.7x	2.3x	2.4x
Scope-adjusted debt/EBITDA	13.6x	21.1x	11.9x	8.4x
Scope-adjusted funds from operations/debt	6%	3%	5%	7%
Scope-adjusted free operating cash flow/debt	-1%	-9%	-8%	-13%

Rating rationale

The low rating reflects Textura's small size, persistently high leverage due to an inability to ramp up sales for new products and related product development risk. The rating is also based on the below-plan performance of the well-established regional textile retail-wholesale division, which is under operational restructuring, as well as the unresolved covenant breach related to rating deterioration causing inadequate liquidity.

Outlook and rating-change drivers

The Outlook remains Negative as Textura has been unable to ramp up sales for the plastics division since 2022 and the textile business has been under operational restructuring since 2023 with deteriorated profitability. In addition, the Negative Outlook reflects the continued breach of the rating deterioration covenant, which, if not remedied, would lead to debt acceleration by February 2025, resulting in distressed liquidity and a potential default situation.

A downgrade would be considered if leverage, as measured by Scope-adjusted debt/EBITDA, is not likely to improve to around 4x by 2025. A downgrade could also be considered if liquidity weakens further because of additional capital expenditure without improved visibility on sales from the plastics division. A downgrade would also occur if the rating deterioration covenant is not cured or waived by 2025.

We do not expect the issuer rating to stabilise at the current level.

An upgrade would be justified if: i) Scope-adjusted debt/EBITDA became likely to improve to around 4.0x by 2025, placing an issuer rating upgrade to B+ by February 2025 within reach and the rating deterioration covenant is cured or ii) the rating deterioration covenant is waived. This could occur if the plastics division achieves significant EBITDA growth, and the textile division is successfully restructured, or an agreement is reached with bondholders and lenders.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
22 May 2024	Downgrade	CCC/Negative
6 Dec 2023	Outlook change	B-/Negative
6 Feb 2023	Downgrade	B-/Stable

Ratings & Outlook

Issuer	CCC/Negative
Senior unsecured guaranteed bond ISIN: HU0000361449	B-

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Related Methodologies

Corporate Rating Methodology; October 2023

Retail and Wholesale Rating Methodology; April 2024

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Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Small, specialised regional retail business with operations diversified into consumer products (pools, coffee capsules) • Adequate cash level ahead of investments • Reasonable Scope-adjusted EBITDA/interest cover • Favourable regulation on use of biodegradable capsules, modern production facility (ESG factor: credit positive)	• Approaching end of grace period for the covenant breach under the bond prospectus, which may result in accelerated debt repayment and distressed liquidity situation in February 2025 • Product risk (two new products – lack of contracts), execution risk for investments • Unfavourable macroeconomics for pools and textile business • Poor reporting, management risk, key person risk (ESG factor: credit negative)

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA approaching 4x by 2025 • Covenant cure or waiver	• Scope-adjusted debt/EBITDA is not likely to improve to around 4x by 2025 • Weakening liquidity • Rating deterioration covenant not cured

Corporate profile

Textura was established in 1990 as a textile trading company specialised in fashionwear fabrics. When this market declined all over Europe due to stiff competition from Asia in the early 2000s, the company switched its activities to workwear and protective wear fabrics. Today, Textura claims to be the biggest workwear fabrics trader in Central Eastern Europe and one of the biggest players in Europe overall. The company imports raw workwear textiles and other materials from various producers in China, India and Pakistan. Textura has around 65 employees and is present on 12 markets with more than 1,500 customers from around 20 different countries. The company's headquarters are in Budapest, Hungary, with subsidiaries in the Czech Republic, Romania, Serbia and Croatia.

In 2021, Textura supplemented its main business by investing in the creation of a plastics business line, which produces coffee capsules (unfilled; traded under Squarecups) and swimming pools.

Financial overview

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	6.8x	2.7x	2.3x	2.4x
Scope-adjusted debt/EBITDA	13.6x	21.1x	11.9x	8.4x
Scope-adjusted funds from operations/debt	6%	3%	5%	7%
Scope-adjusted free operating cash flow/debt	-1%	-9%	-8%	-13%
Scope-adjusted EBITDA in HUF m				
EBITDA	552	356	630	893
Scope-adjusted EBITDA	**552**	**356**	**630**	**893**
Funds from operations in HUF m				
Scope-adjusted EBITDA	552	356	630	893
less: (net) cash interest paid	(81)	(133)	(275)	(375)
less: cash tax paid per cash flow statement	(25)	(7)	-	(16)
add: dividends from associates	-	-	-	-
Change in provisions	-	-	-	-
Funds from operations (FFO)	**446**	**216**	**355**	**502**
Free operating cash flow in HUF m				
Funds from operations	446	216	355	502
Change in working capital	76	(310)	65	18
Non-operating cash flow	(565)	(552)	-	-
less: capital expenditure (net)	(15)	-	(1,000)	(1,500)
Free operating cash flow (FOCF)	**(58)**	**(646)**	**(580)**	**(980)**
Net cash interest paid in HUF m				
Net cash interest per cash flow statement	81	133	275	375
Net cash interest paid	**81**	**133**	**275**	**375**
Scope-adjusted debt in HUF m				
Reported gross financial debt	7,517	7,504	7,493	7,493
less: cash and cash equivalents	(2,837)	(1,770)	(1,180)	(200)
add: non-accessible cash (no netting of cash)[1]	2,837	1,770	1,180	200
Scope-adjusted debt (SaD)	**7,517**	**7,504**	**7,493**	**7,493**

[1] Netting of cash: generally, this is only applicable to ratings in the BB category or higher, and only if the cash is permanent and accessible.

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Environmental, social and governance (ESG) profile[2]

Environment		Social		Governance	
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)		Labour management		Management and supervision (supervisory boards and key person risk)	
Efficiencies (e.g. in production)		Health and safety (e.g. staff and customers)		Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)	
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)		Clients and supply chain (geographical/product diversification)		Corporate structure (complexity)	
Physical risks (e.g. business/asset vulnerability, diversification)		Regulatory and reputational risks		Stakeholder management (shareholder payouts and respect for creditor interests)	

Legend
Green leaf (ESG factor: credit positive)
Red leaf (ESG factor: credit negative)
Grey leaf (ESG factor: credit neutral)

Textura's environmental profile is credit neutral because the textile division is not particularly environmentally friendly. The retail activity itself is neutral. The plastics division has high energy needs and pool users also have a large environmental footprint. The coffee capsules are bio-degradable and ecological.

We consider management's forecast that net debt/EBITDA will decrease to below 3x by YE 2024 to be very optimistic and have therefore included reasonable discounts in our calculations and based our analysis on signed sales contracts. Management is very small and there is key person risk (ESG: credit-negative governance factors).

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: B

Textura's business risk profile has deteriorated due to the poor operating profitability of the textile retail-wholesale division and slower than expected sales ramp-up of the plastics division in 2023 with no quick rebound expected. Textura's business risk profile is supported by the regional outreach of the textile division and diversification into new plastic products (coffee capsules and pools), which has albeit been gradual.

Industry risk profile: BB

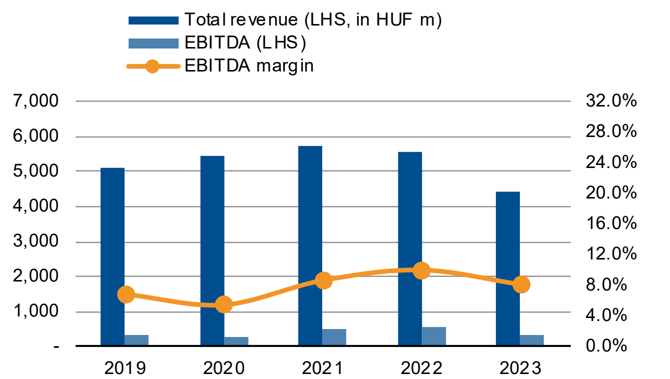
Textura is involved in different fields of activity. Historically, the company operated as a wholesaler of textiles (industry risk: BB). However, Textura started manufacturing pools and bio-based coffee capsules in 2021.

Development of the two new activities encompassed in the plastic division is expected to bring further growth to the group, but the company has issues in sales ramp up. The group acquired related assets in 2021. Textura anticipates it will be able to seize significant market shares as: i) pools are made with new technologies, allowing faster production time than competitors; and ii) there are currently only a handful of companies in Europe that are able to manufacture bio-based coffee capsules.

Weakening market positioning

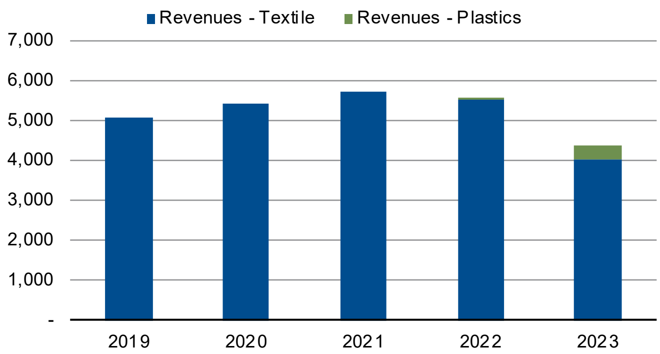
Textura has a medium market share in its textile activities but is a very small company based on revenues and compared to other Hungarian specialised retailers. It is one of the largest workwear fabric traders in the Central Eastern European region and the leader in its home market of Hungary, in addition to being the market leader in Croatia and Romania. However, in 2023 Textura operational restructured its textile division as revenues contracted by more than 25%. We consider substitution risk, which would see Textura's customers purchase directly from the manufacturer, to be relatively low. This cements Textura's market share and ensures continuous revenue in the medium term. The company benefits from high customer granularity (over 1,500) and has long-lasting relationships with its suppliers.

Figure 1: Revenues and EBITDA of Textura Zrt. (in HUF m)



Sources: Textura, Scope

Figure 2: Divisional revenues (in HUF m)



Sources: Textura, Scope

Textura has three contracts signed in the coffee capsule segment, totaling 90 million capsules in 2024 and 185 million capsules in 2025. In Q1 2024 only 2 million capsules were sold, which can be explained by the fact that two contracts out of the three were signed on 15th March 2024. Nevertheless, Textura is not the only capsule supplier to these customers and there is no track record of customers drawing down under these framework agreements. The full drawdown of the framework contracts would result in revenues of HUF 1.4bn for 2024 and HUF 2.0bn in 2025.

Textura has only one contract signed in the pool segment for 1,500 pools, out of which around 200 were sold in Q1 2024 from inventory. This released some working capital, which was offset by the reduction of accounts payable to nil, indicating no supplier credit and a distressed situation. Pools have a high seasonality with a peak in Q2-Q3, which partly explains the low Q1 sold volume. Nevertheless, the pools segment may produce up to HUF 0.9bn revenues in 2024 if the contractually planned volumes are fully met.

Diversification into pools and coffee capsules

Textura's textile division is well diversified in terms of geographical outreach and customers for a company of this relatively small size. It is, however, highly concentrated in terms of sales for its plastics division. Currently there are only three buyers for coffee capsules and one for pools, which are far from covering existing production capacity.

Low and volatile operating profitability

The textile division underwent operational restructuring in 2023, which entailed layoffs and revenue contraction. The EBITDA of the textile segment was close to nil in 2023 and a rebound is only expected in the second half of 2024.

The Scope-adjusted EBITDA of HUF 356m in 2023 (down from HUF 552m in 2022) was mainly produced by the plastics division, which is not an established business. The Scope-adjusted EBITDA margin has deteriorated from 9.5% in 2022 to 7.4% in 2023 and the Scope-adjusted return on assets has fallen from 17.8% in 2022 to 5.9% in 2023.

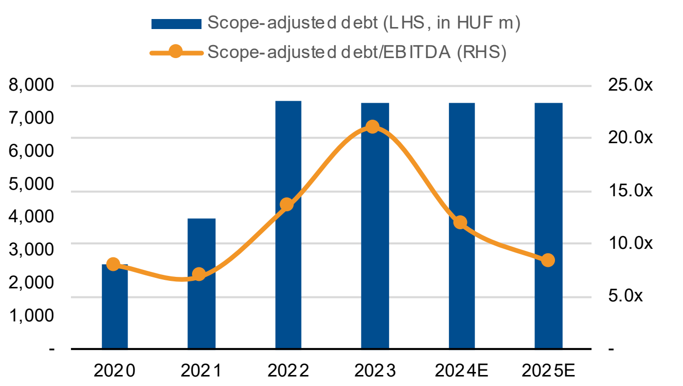
We expect operating profitability to improve somewhat in 2024 but to remain below historical levels because the textile division seems to not fully recover in H1 2024 and the contribution of the plastics division is also not significant yet.

Financial risk profile: CCC

Persistent high leverage

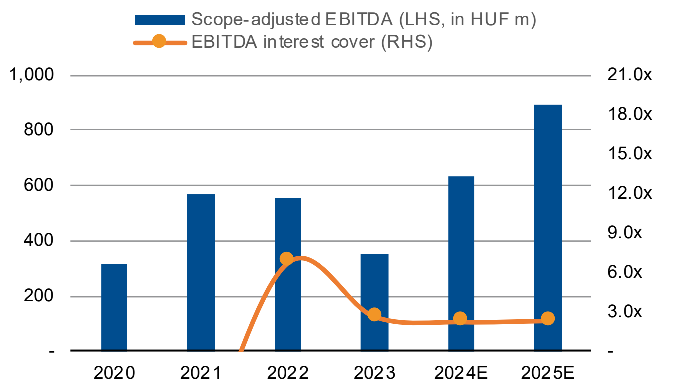
Textura's financial risk profile is driven by high and deteriorating leverage, with Scope-adjusted debt/EBITDA of 21.1x at YE 2023 (up from 13.6x at YE 2022). We expect leverage to stay highly volatile and well above 10x in 2024 even if there is a large drawdown on the existing signed framework contracts.

Figure 3: Debt and leverage



Sources: Textura, Scope estimates

Figure 4: Interest cover



Sources: Textura, Scope estimates

Low cash flow generation

Scope-adjusted funds from operations/debt was low at 3% in 2023. We expect it to remain in the 5%-7% range in the next two years, with possible upside if new production lines for the plastics business are filled with orders, something not considered in our rating case. Further improvement is limited, based on existing EBITDA and the lack of visibility on potential new sales and additional related EBITDA.

We expect FOCF/debt to remain negative in 2024-25. This is because planned Phase II investments commencing in H2 2024 will lead to significant cash absorption, thus limiting room to manoeuvre for further working capital needs in the plastics division. In our view, additional external funding is needed to cover future liquidity requirements while maintaining the flexibility to manage risks associated with the production ramp-up in the plastics division, which will lead to increasing debt.

Acceptable interest cover

Scope-adjusted EBITDA/interest cover was 2.7x at YE 2023. We expect it to deteriorate to 2.3x at YE 2024 and to stay above 2.0x thereafter. This is the strongest metric bolstering Textura's financial risk profile. The moderate ratio is supported by (i) improving nominal EBITDA in 2024-25 due the restructuring of the textile division and contribution of the plastics division, and (ii) by purely fixed-rate debt of HUF 7.5bn, which does not entail any interest rate risk in the short run. Scope-adjusted EBITDA/interest cover may, however, deteriorate if Textura's lenders decide to renegotiate the financing terms related to the ongoing covenant breach.

Inadequate liquidity (-1 notch)

Liquidity has become inadequate as there is no contracted working capital financing for the plastics division, existing cash is mainly earmarked for capital expenditure and a covenant breach related debt acceleration may occur in the next twelve months.

Liquidity is supported by sources secured from bond issuance for the planned investments and the medium-term working capital facility for the textile division of around HUF 2.5bn (denominated in euros, original amount of EUR 6.5m) expiring in July 2026. The investments will, however, decrease cash to low levels and there is no undrawn committed credit line for further working capital needs of the plastics division. Therefore, we note that further financing will be needed to support the expansion of the plastics division and for potential capex cost overruns.

Textura does not have sufficient cash to repay its debt in the event of a debt acceleration.

Balance in HUF m	2024E	2025E
Unrestricted cash (t-1)	1,770	1,180
Open committed credit lines (t-1)	-	-
FOCF	(580)	(980)
Short-term debt (t-1)	11	-
Coverage	**No material short-term debt, however, debt acceleration may occur.**	

We highlight that Textura Zrt.'s senior unsecured bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount (HUF 5.0 bn) if the debt rating of the bonds deteriorated to B or B-. Such covenant breach can be cured if the issuer rating reaches B+ within two years from the downgrade of the bond ratings. Should the bond rating drop below B-, immediate accelerated repayment occurs. Such a development could adversely affect the company's liquidity profile.

Following the downgrade of the senior unsecured guaranteed bond rating to B on 6th of February 2023, Textura Zrt. has entered the grace period. This means the company must ensure its issuer rating improves to B+ before the grace period ends on 5th February 2025. If the issuer rating does not improve to B+ within the grace period, the company could face severe liquidity constraints and enter a default, unless it obtains refinancing that covers the early repayment of the outstanding bond amount or it proactively obtains an investor waiver related to the accelerated repayment.

We have received no information that the bondholders intend to waive the covenant breach under the bond prospectus. We see a ratings upgrade as unlikely until February 2025. Therefore, a failure by Textura to obtain a waiver from bondholders may result in a distressed liquidity situation and hence a ratings downgrade not limited to one notch by the end of 2024.

Supplementary rating drivers: +/- 0 notches

There is no notching for supplementary rating drivers.

Long-term debt rating

Senior unsecured guaranteed bond rating: B-

The rating of the HUF 5.0bn senior unsecured bond (ISIN HU0000361449) guaranteed by the Hungarian Development Bank was downgraded by one notch to B- from B, in line with the downgrade of the issuer rating.

The bonds are rated one notch above the issuer rating. This reflects our assessment of an above average recovery due to the guarantee from the MFB Hungarian Development Bank (BBB/Stable).

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