16 February 2023

Corporates

Textura Zrt.
Hungary, Retail

B- STABLE

Key metrics

			Scope estimates	
Scope credit ratios	2021	2022P[1]	2023E	2024E
Scope-adjusted EBITDA/interest cover	net interest	net interest	1.7x	1.4x
Scope-adjusted debt/EBITDA	7.0x	10.2x	13.9x	9.7x
Scope-adjusted funds from operations/debt	16%	13%	3%	3%
Scope-adjusted free operating cash flow/debt	-55%	19%	-10%	-30%

Rating rationale

While high profitability in recent years supports the assessment of Textura's business risk profile, high execution risk and lack of visibility on future income and EBITDA from the plastic division (pools and bio-based coffee capsules) are constraints. Nonetheless, the group continues to benefit from a medium-sized market share in its legacy business (textile trading) and from extensive customer reach across Europe.

Execution risks related to the roll-out of the new plastic division are likely to put pressure on credit metrics in the coming years. Liquidity is deemed adequate, supported by proceeds from the MNB bond issuance.

Outlook and rating-change drivers

The Stable Outlook reflects leverage staying at elevated levels in the short-to-medium term, i.e. Scope-adjusted debt/EBITDA of above 6x, given the limited visibility on sales from the plastic division. Furthermore, liquidity is deemed as adequate in the next 12 months, based on the expected successful refinancing of the HUF 2.5bn working capital loan in September 2023 and no further capital expenditure in the plastic division until a successful ramp-up of sales.

A positive rating action could be warranted if the Scope-adjusted debt/EBITDA ratio moved towards 4x, likely enabled by a successful ramp-up of the plastic division.

A negative rating action would be considered if liquidity weakened as a consequence of further capital expenditure without additional visibility on sales from the plastic division and/or an unsuccessful extension of the working capital facility or working capital buildup, e.g. if the plastic division did not cover the additional costs it generated.

We note that Textura's senior unsecured bond, akin to all bonds issued under the Hungarian National Bank's bond scheme, has two accelerated repayment clauses. The clauses require the issuer to repay the nominal amount (HUF 5.0bn) in case of a rating deterioration (two-year cure period for B/B- rating, immediate repayment below B-) or change of control at the issuer level. The same applies to the bank guarantee provided by MFB Hungarian Development Bank securing 80% of the bond notional.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
6 Feb 2023	Downgrade	B-/Stable
3 Feb 2022	New	B/Stable

Ratings & Outlook

Issuer	B-/Stable
Senior unsecured debt	B

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Related Methodologies and Related Research

Corporate Rating Methodology; July 2022

Retail and Wholesale Rating Methodology; April 2022

ESG considerations for the credit ratings of retail corporates; November 2021

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Bloomberg: RESP SCOP

[1] 2022 was reported on a pro-forma basis.

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• High group profitability, gradually improving over the last year • Medium-sized market share of textile division • Good diversification (product and geographic) supports the rating	• Lack of visibility due to the group's development of the plastic division • Liquidity deemed to be inadequate due to forecasted pressure on FOCF linked to net working capital • Lack of contracts in the plastic division • Relative high supplier concentration

Positive rating-change drivers	Negative rating-change drivers
• Scope-adjusted debt/EBITDA moving toward 4x on a sustained basis	• Weak liquidity

Corporate profile

Textura was established in 1990 as a textile trading company specialised in fashion wear 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.

Besides the main business, in 2021 the company invested in the creation of a plastic business line to produce coffee capsules (unfilled; traded under Squarecups) and swimming pools.

Financial overview

				Scope estimates		
Scope credit ratios	**2020**	**2021**	**2022P[2]**	**2023E**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	net interest	net interest	net interest	1.7x	1.4x	1.3x
Scope-adjusted debt/EBITDA	8.0x	7.0x	10.2x	13.9x	9.7x	11.0x
Scope-adjusted funds from operations/debt	13%	16%	13%	3%	3%	2%
Scope-adjusted free operating cash flow/debt	-18%	-55%	19%	-10%	-30%	-3%
Scope-adjusted EBITDA in HUF m						
EBITDA	320	566	735	542	779	683
Scope-adjusted EBITDA	**320**	**566**	**735**	**542**	**779**	**683**
Funds from operations in HUF m						
Scope-adjusted EBITDA	320	566	735	542	779	683
less: (net) cash interest paid	13	74	287	-313	-559	-510
less: cash tax paid per cash flow statement	-0	-19	-26	-	-	-
Change in provisions	5	-5	-	-	-	-
Funds from operations (FFO)	**338**	**616**	**995**	**229**	**220**	**173**
Free operating cash flow in HUF m						
Funds from operations	338	616	995	229	220	173
Change in working capital	1,620	-1,787	462	331	-234	-142
less: capital expenditure (net)	-2,422	-1,014	-15	-1,340	-2,222	-250
Free operating cash flow (FOCF)	**-464**	**-2,185**	**1,442**	**-779**	**-2,237**	**-219**
Net cash interest paid in HUF m						
Net cash interest per cash flow statement	13	74	287	-313	-559	-510
Net cash interest paid	**13**	**74**	**287**	**-313**	**-559**	**-510**
Scope-adjusted debt in HUF m						
Reported gross financial debt	2,566	3,941	7,521	7,516	7,516	7,516
Scope-adjusted debt	**2,566**	**3,941**	**7,521**	**7,516**	**7,516**	**7,516**
Cash and cash equivalents (for information purpose)	845	459	5,258	4,090	1,469	865

[2] 2022 was reported on a pro-forma basis.

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Environmental, social and governance (ESG) profile[3]

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)

ESG profile is deemed to be adequate

The development of the group's plastic activities is deemed as a neutral factor for its ESG profile.

We consider resource management as well as regulatory and reputational risks to be positive factors for coffee capsules. While the latest EU Packaging and Packaging Waste Directive does not restrict the usage of non-bio coffee capsules, it is likely that these will change in the future. This is highlighted by Nestle's move to work more closely with Finnish company Huhtamaki, which specialises in bio-based packaging.

We deem this positive impact to be fully mitigated by Textura's decision to develop its activities toward swimming pools. This activity would be flagged as negative for resource management as well as regulatory and reputational risk. In an environment of more severe droughts and water shortages, more and more restrictions will be placed on pool usage for consumers during the hotter seasons. We also see similar pressure potentially coming from the sale of textiles, where the supply chain is coming under more scrutiny to ensure a better quality of life in producing countries.

Lastly, governance appears to be sound.

[3] 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.

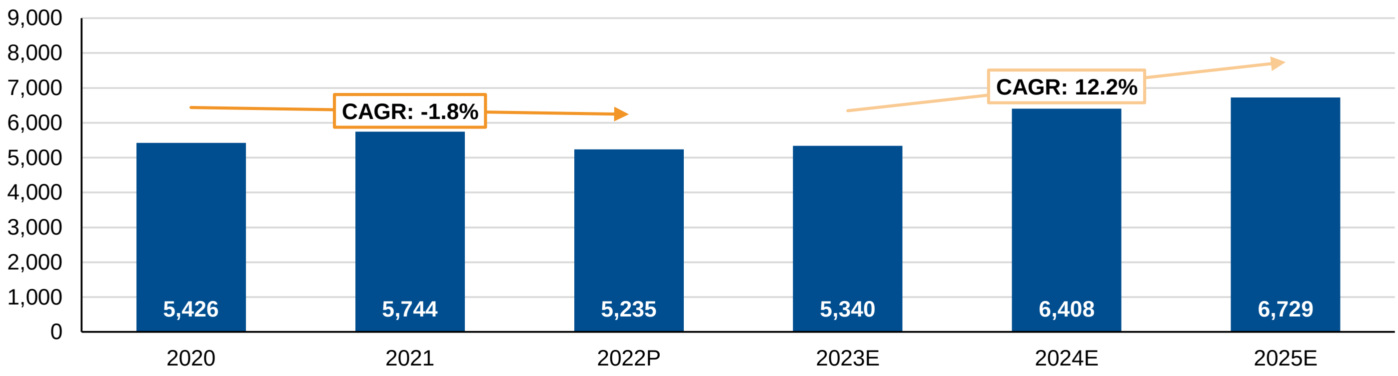
Textura did not provide audited consolidated accounts, which are not a regulatory necessity due to its small size. However, it will consolidate all its holdings and produce consolidated financial statements from FY 2021 on. We expect these to be provided in Q1 2023.

Business risk profile: B+

Industry risk profile: BB

Textura is involved in different fields of activities. Historically, the group operated as a wholesaler of textiles (industry risk: BB). However, Textura started manufacturing pools and bio-based coffee capsules in 2021 (industry risk: BBB). Due to the lack of revenue stemming from the plastic division, the analysis is solely based on Textura's wholesaling activities.

Figure 1: Development of revenues (HUF m)



Sources: Textura Zrt, Scope estimates

Medium market share in the textile business

Textura is assessed to have a medium market share in its textile activities. It claims to be one of the largest workwear fabric traders in the Central Eastern European region and is the market leader in its home market of Hungary, in addition to being the market leader in Croatia and Romania. We consider the substitution risk, which would see Textura's customers purchase directly from the manufacturer, to be relatively low, which cements Textura's market share and ensure continuous revenue in the medium term. The group benefits from a high customer granularity (more than 1,500) and has long lasting relationships with its suppliers, notably in Pakistan (72% of total suppliers as of YE 2022).

Plastic division benefits from strong growth potential …

Development of the two new activities encompassed in the plastic division is expected to bring further growth to the group. The group acquired related assets in 2021 and is currently manufacturing swimming pools and bio-based coffee capsules. Textura expects steady growth in sales (to represent 54% of total sales by YE 2023 and 76% by YE 2024) in the coming years (in 2022 the plastic division contributed close to 0% of total sales). 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. We note, however, the current absence of EU legislation aiming to ban non-bio-based coffee capsules, limiting the company's ability to gain access to the market.

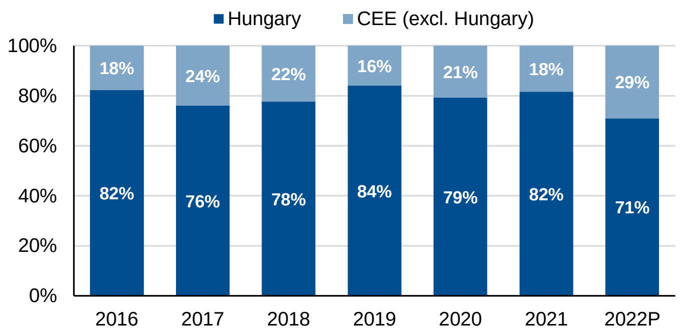
… but is slowed down due to an absence of contracts

That said, due to the current absence of supply contracts and letters of intent for both activities within the plastic division, we currently maintain a conservative stance in our assessment of the impact of these entities within the market positioning assessment, the size of the group and their overall contribution to the financial statements.

Strong geographical reach

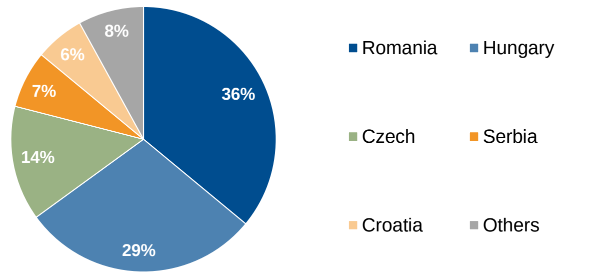
Textura is well diversified in terms of geographical reach for a company of relatively small size. The group's main revenue driver is the Romanian entity, where Textura has been active since 2008. The branch in Croatia was also established in 2008 and currently serves customers in Croatia and Slovenia. The office in Serbia was established in 2018 to serve customers in Serbia, Montenegro, Macedonia, Bosnia and Albania.

Figure 2: Development of geographical split in term of sales



Sources: Textura Zrt, Scope

Figure 3: Split of countries in terms of sales (YE 2022P)



Sources: Textura Zrt, Scope

Supplier concentration

We see some concentration of the supplier structure in Pakistan, which is deemed to be normal due to the large textile manufacturing sector in this country. The expected roll-out of the plastic division is expected to bring additional geographical diversification of the company, slightly mitigating the strong macroeconomic correlation with CEE countries (related to textiles division).

Product diversification is expected to improve with the ramp-up of the plastic division

Product diversification is expected to follow a similar positive trend as geographical diversification. Currently, Textura is only active in the textile business, enhancing the company's vulnerability to the inherent risks of the sector. This is slightly mitigated as Textura is mainly involved in textiles to be used in professional areas, highlighted by upcoming changes in the company's proposed products (special products, e.g., reflective material, water-, oil-, acid-, flame-repellent material). The addition of the plastic division, which will transform the group into a consumer-goods hybrid, is expected to improve product diversification.

Channel diversification is weak but deemed normal for Textura

Channel diversification is not critical to the rating case as the group claims to have long-term relationships with its customers and emphasises having limited marketing costs related to its textile activities. We understand that the group plans to market its new plastic products primarily via fairs and sales representatives.

Strong profitability supports the rating …

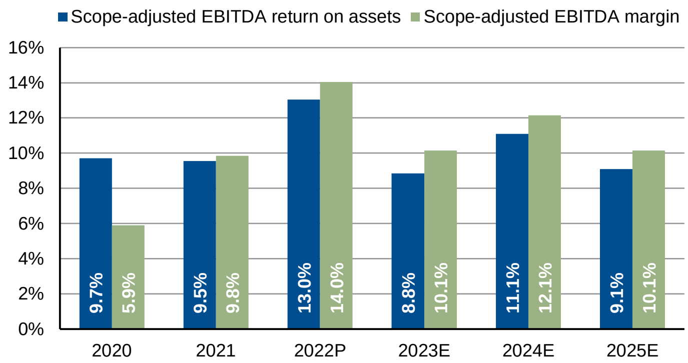
Textura benefits from a relatively high Scope-adjusted EBITDA margin of close to 10% at YE 2021 (7.6% on average over the 2018-21 period). YE 2022 should see the margin grow to near 15% based on non-audited preliminary numbers provided by management.

We understand that the EBITDA increase in 2022 derives from two elements:

- Textura has benefited from an 'inflation differential' that boosts its gross margin. As inflation in its supply countries is much lower than in Hungary, Textura's decision to pass on 100% of costs to its customers artificially inflated its sales. This was supported by an increase in inventory stock-up during H1 2022 that released during H2 2022.

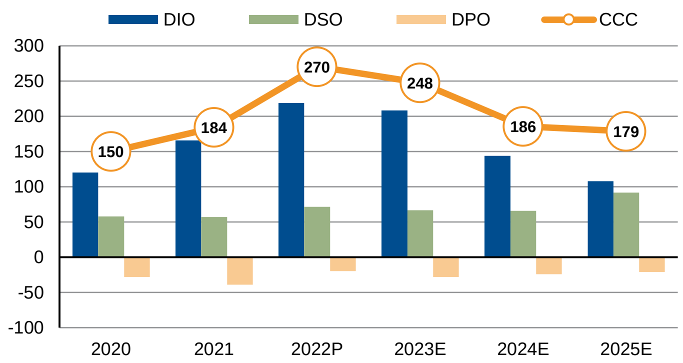
- Textura's shift towards higher margin products (special products, e.g., reflective material, water-, oil-, acid-, flame-repellent material) in 2022 is also expected to strongly support the group. The group claims to have taken advantage of falling procurement prices and have agreed lower supplier prices. The gross margin at H1 2022 was around 18% and is forecasted to increase to 27% by YE 2022.

Figure 4: Development of profitability margins



Sources: Textura Zrt, Scope estimates

Figure 5: Development of cash conversion cycle (CCC)[4]



Sources: Textura Zrt, Scope estimates

… but is impacted by high execution risks

2023 is expected to be supported by the ramp-up of the plastic division. We expect the volatility of operating margins to remain relatively high as textiles and pools are deemed to be inherently more cyclical than the bio-based coffee capsules division. We adopt a relatively cautious stance in our forecasts regarding the contribution of this division to total sales and EBITDA as: i) the group has yet to start its phase II investment plan; and ii) there are currently no contracts or pre-orders for the deployment of either of these products.

Negative impact of ROA and cash conversion cycle

Inherent to the nature of wholesalers, the cash conversion cycle is extremely high and is expected to further deteriorate in the coming years due to the addition of pools, which are expected to weigh heavily on days inventory outstanding (DIO). Lastly, EBITDA return on assets is relatively low (10% in 2021 and 16% on average over 2018-20). While there are no operating leases or physical shops affecting the asset base, large inventories and the increase in PPE resulting from the phase I and phase II investment plans are expected to maintain some pressure on the group's EBITDA return on assets.

Financial risk profile: B-

Gross debt expected to remain stable

Textura issued a HUF 5bn bond in 2022 under the MNB framework. Part of the proceeds were used to refinance the loan that the group contracted in its phase I investment plan (plastic division) in 2022. Currently, the group has another line of debt beside the mentioned bond, namely working capital debt. We consider Textura to be adequately funded to carry out its phase II investment plan, so we expect no additional debt financing in the coming years.

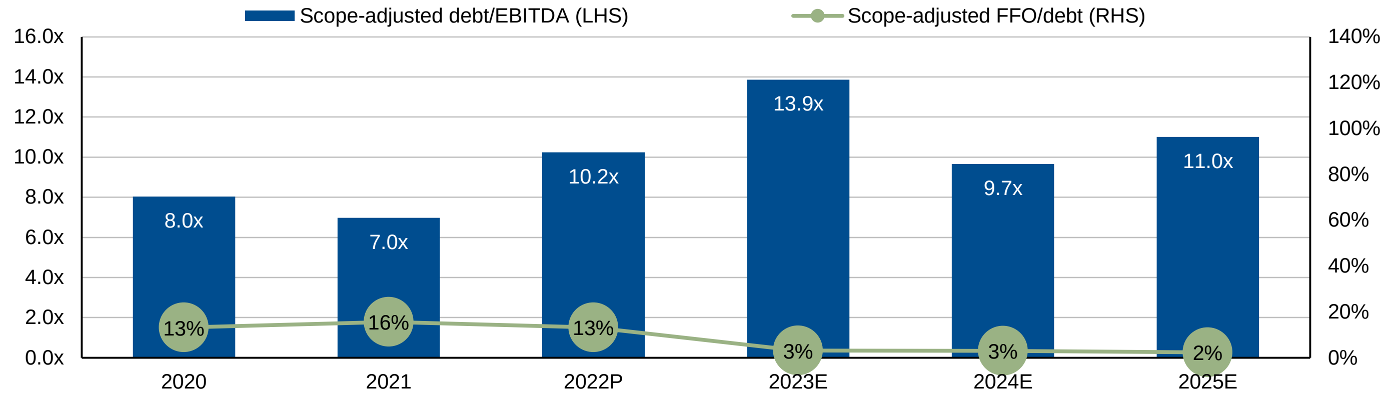
Expectation of strong volatility in net cash generation

Net cash flow generation is expected to be positively impacted by the ramp-up of the two plastic divisions, which – despite our cautious forecasts – are expected to generate higher operating margins than the historical wholesale division. Due to the abovementioned start of operations of the two divisions, we anticipate net working capital variations will likely see large outflows in the coming years should demand not match the group's inventory levels. This is especially true in the case of discretionary items like swimming pools. Lastly, we anticipate capital expenditure will see a large increase in 2023 and 2024 corresponding to

[4] DIO: days inventory outstanding I DSO: days sales outstanding I DPO: days payables outstanding

the phase II investment plan before decreasing, because we do not expect any additional development or expansion capex currently.

Figure 6: Leverage

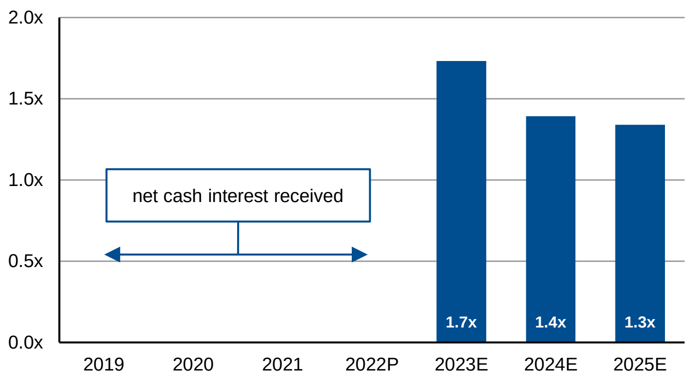


Sources: Textura Zrt, Scope estimates

Weak leverage metrics

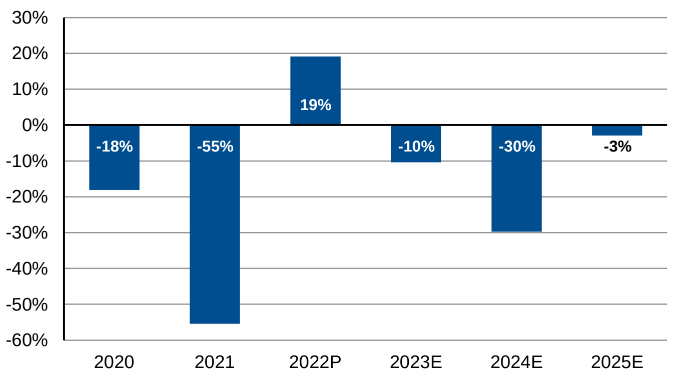
Our base case scenario anticipates a refinancing of the working capital loan (HUF 2.5bn) in September 2023. Thus, including the HUF 5.0bn bond, we expect overall gross debt to remain close to HUF 7.5bn for the coming years. This is because we do not anticipate any additional debt issuance, and we consider the group to be adequately funded to carry out its investment plans. Leverage metrics, defined by Scope-adjusted debt/EBITDA and Scope-adjusted FFO/debt, are thus expected to be fully impacted by the potential upside of the EBITDA evolution linked to the ramp-up of plastic activities. We expect both aforementioned metrics to see a strong development in the coming years, provided Textura wins supply contracts for its plastic division.

Figure 7: Scope-adjusted EBITDA/interest cover



Sources: Textura Zrt., Scope estimates

Figure 8: Cash flow cover (Scope-adjusted FOCF/debt)



Sources: Textura Zrt., Scope estimates

Interest- and cash flow- covers expected to remain under pressure

We expect interest cover to remain relatively weak. While higher EBITDA growth than we expect could have an impact on metrics, we anticipate a relatively high refinancing rate in 2023 for the working loan and despite the national refinancing plan decided by the Hungarian government[5]. Cash flow cover is expected to remain negative in the next few years. We anticipate stretched net working capital variations to weigh heavily on FOCF due to the ramp-up of the two new plastic products.

[5] Amid high interest rates, the Hungarian government wants to help SMEs to refinance their activities notably thanks to the Exim refinancing program, accounting for HUF 700bn (announced in Jan 2023 and to be started in Feb 2023). To know more, please refer to this link.

Liquidity is adequate

Liquidity is adequate. It is supported by manageable upcoming debt maturities (including the HUF 2.5bn working capital loan expiring in September 2023) and the large amount of funds remaining from the bond issuance. These will compensate for any pressure on FOCF exerted by the phase II capital expenditure.

Balance in HUF m	2022P	2023E	2024E
Unrestricted cash (t-1)	459	5,258	4,090
Open committed credit lines (t-1)	-	-	-
FOCF (t)	1,442	-779	-2,237
Short-term debt (t-1)	10	2,521	-
Coverage	**> 200%**	**> 200%**	**No ST debt**

Long-term debt rating

Senior unsecured debt rating: B

The HUF 5.0bn senior unsecured bond (ISIN HU0000361449) guaranteed by the Hungarian Development Bank and issued under the MNB Bond Funding for Growth scheme was downgraded by one notch to B. It reflects our view of an average recovery for the group; however, it is supported by the guarantee from the Hungarian Development Bank (BBB+/Negative[6]).

[6] To know more, please click on the link.

Appendix: Peer comparison

	Textura Zrt.	Vörösko Kft.	Stavmat Építőanyag Kereskedelmi Zrt.	Daniella Kft.
Home market	Hungary	Hungary	Hungary	Hungary
Status	Public	Public	Public	Public
Business risk profile	**B+**	**BB-**	**B+**	**BB-**
Industry risk profile	BB	BB	BB	BBB
Country retail strength	High-medium	High-medium	High-medium	High-medium
Market position	Medium	Strong	Strong	Strong
Revenue size (in EUR bn)	0.02	0.23	0.11	0.07
Consumer goods category	Discretionary	Discretionary	Discretionary	Non-discretionary
Online diversification**	N/A	High	Low	High
Geographical exposure	Immediate neighbours	One country	One country	One country
Product diversification	1 cyclical	2 categories	1 cyclical	1 non-cyclical
Profitability assessment	Weak	Weak	Moderate	Moderate
Financial risk profile *	**B-**	**BB+**	**BBB-**	**BB-**
Scope-adjusted debt/EBITDA	10.4x	2.1x	1.7x	3.3x
Scope-adjusted FFO/debt	11%	29%	86%	31%
Scope-adjusted EBITDA/interest cover	-2.8x	8.0x	64.9x	9.6x
Scope-adjusted FOCF/debt	-15%	-40%	3%	-10%
Liquidity	Adequate	Adequate	Adequate	Adequate
Standalone rating	**B-**	**BB**	**B+**	**B+**
Outlook	**Stable**	**Stable**	**Stable**	**Stable**

* (average Y-1; Y; Y+1 with Y corresponding to the last actual year).

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