Textura Zrt.
Hungary, Retail and Wholesale

SCOPE | B STABLE

Corporate profile

Textura Zrt. was founded in 1990. It has around 65 employees, and it generated revenues of HUF 5.4bn (EUR 15.0m) in 2020. The company's main activity is buying and selling workwear fabrics and protective clothing fabrics in Central Eastern Europe. In 2021 it established an additional plastics business line to produce (unfilled) coffee capsules that are 100% biobased, home-compostable and Nespresso-compatible. The new business line also produces swimming pool bodies (and will produce other polyethylene-based products in future). The majority shareholder and CEO of Textura is Tamás Schneer. He (indirectly) owns 91% of Textura Zrt. and has 100% control over company strategy.

Key metrics

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA interest cover (x)	-25.6x	-24.0x	4.0x	2.3x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA (x)	3.0x	8.0x	4.8x	7.1x
Scope-adjusted funds from operations/SaD (%)	35%	13%	15%	8%
Free operating cash flow (FOCF)/SaD (%)	27%	-18%	-11%	-14%

Rating rationale

We have assigned Textura a first-time issuer rating of B with Stable Outlook and a (P)B+ preliminary rating to the senior unsecured bond guaranteed by the MFB.

Textura is a well-established workwear fabrics and protective clothing fabrics trading company, especially in Central Eastern Europe. It achieved total revenues of HUF 5.4bn (up 6.7% YoY) and Scope-adjusted EBITDA of HUF 319.6m in 2020. With the addition of its new plastics business line that produces coffee capsules and swimming pool bodies (production started in September 2021), the company has positive growth prospects of HUF 11.7bn in revenue and HUF 1.8bn in EBITDA until 2023 (our base case).

Textura's business risk profile is rated B+. The company has good market positioning in Hungary and nearby countries. With its textile business, it is well established in the niche market for workwear and protective clothing. Regarding its plastic business, we are cautious about the company's expected growth prospects, as it does not yet have the necessary size or pricing power and must compete against large multinational corporates, especially in the coffee capsule segment. Profitability is solid but highly volatile with Scope-adjusted EBITDA margins fluctuating between 5%-8% and Scope-adjusted EBITDA return on assets between 7%-11%. Although we expect margins to increase to up to 15% in our financial base case, we assume profitability will become even more volatile due to the uncertain development of Textura's coffee capsule and swimming pool business.

Textura's financial risk profile is rated B. While it has shown volatile EBITDA development in the past, it is planning for steady growth in future. We expect free operating cash flows to become increasingly volatile, driven by high capex in the years to come in order to develop the company's production site and purchase new machines to make coffee capsules and pool bodies. Leverage has been moderate in the past, but is expected to increase significantly (to around 7x at YE 2022) after the planned bond issuance.

Ratings & Outlook

Corporate rating	B/Stable
Senior unsecured guaranteed bond	(P)B+

Analyst

Nils Weinhold
+49 302 7891-372
n.weinhold@scoperatings.com

Related Methodologies

Corporate Rating Methodology: July 2021

Rating Methodology Retail and Wholesale Corporates: March 2021

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Tel. +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Textura has no long-term loans and only two short-term credit lines. We see this as a (manageable) risk in the current transformation of the company. Although the company has shown that it can generate sufficient cash, its business is very capital-intensive. With the new plastics business line, this will increase. Given that it has no proven track record in this new area, the company is dependent on banks being convinced of its strategy and continuing to regularly grant or extend short-term credit lines.

Outlook and rating-change drivers

The Stable Outlook reflects our expectation that Textura will be able to successfully place the planned HUF 5.0bn bond while credit metrics will develop at least in line with our financial base case (indicating a SaD/EBITDA in the range of 4x-6x over time) and that the company will not pay any dividends during its expansion phase.

A positive rating action could be warranted: i) if the company's business risk profile improved significantly after the expansion phase through a good development of the plastics business line in terms of higher market shares, broader geographical diversification and an improved customer and supplier base, including long-term purchasing contracts; or ii) if SaD/EBITDA falls below 4x on a sustained basis.

A negative rating action could occur: i) if credit metrics did not show a lasting improvement from 2023 (post expansion capex), leaving SaD/EBITDA around 6x or higher; or ii) if the company's liquidity situation tightened. This could be triggered by weaker-than-expected sales growth in the plastics business line and/or delays in the planned ramp-up of production capacity.

Rating drivers

Positive rating drivers	Negative rating drivers
• Well-established textile business with good market shares in portions of Central Eastern Europe • Diversified customer base and limited dependence on suppliers • Solid profitability • Good growth potential in the plastics business line	• New player in the coffee capsule and swimming pool business with no track record, no pricing power and strong competition • Small absolute size • Profitability is highly volatile, and this will increase • Negative FOCF/SaD resulting from high capex • Lack of long-term credit lines burdens liquidity during the company's current transformation phase.

Rating-change drivers

Positive rating-change drivers	Negative rating-change drivers
• Improved business risk profile after the expansion phase through the plastics business line in terms of higher market shares and a broader geographical diversification • SaD/EBITDA below 4x on a sustained basis	• Credit metrics showing no lasting improvement from 2023 on (post expansion phase), leaving SaD/EBITDA around 6x or higher • Strained liquidity

Financial overview

			Scope estimates	
Scope credit ratios	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA interest cover (x)	-25.6x	-24.0x	4.0x	2.3x
Scope-adjusted debt (SaD)/Scope-adjusted EBITDA (x)	3.0x	8.0x	4.8x	7.1x
Scope-adjusted funds from operations/SaD (%)	35%	13%	15%	8%
FOCF/SaD (%)	27%	-18%	-11%	-14%
Scope-adjusted EBITDA in HUF m	**2019**	**2020**	**2021E**	**2022E**
EBITDA	371.9	319.6	527.0	907.1
Adjustments	0	0	0	0
Scope-adjusted EBITDA	**371.9**	**319.6**	**527.0**	**907.1**
Scope-adjusted funds from operations in HUF m	**2019**	**2020**	**2021E**	**2022E**
Scope-adjusted EBITDA	371.9	319.6	527.0	907.1
less: cash interest as per cash flow statement	14.5	13.3	-132.6	-392.8
less: cash tax paid as per cash flow statement	0.0	-0.1	-14.6	-14.7
Change in provisions	0.0	0.0	0.0	0.0
Scope-adjusted funds from operations	**386.4**	**332.8**	**379.9**	**499.7**
SaD in HUF m	**2019**	**2020**	**2021E**	**2022E**
Interest-bearing debt	1,109.4	2,565.5	2,542.1	6,442.1
less: cash, cash equivalents	0.0	0.0	0.0	0.0
add: cash not accessible[1]	0.0	0.0	0.0	0.0
SaD	**1,109.4**	**2,565.5**	**2,542.1**	**6,442.1**

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

Business risk profile: B+

Industry risk: BB

We have assigned a BB industry risk profile rating. This reflects the industry risk of the (cyclical) retail and wholesale segment with a medium cyclicality, low market entry barriers and low substitution risks.

Well-established workwear and protective clothing fabrics trader, especially in CEE

Production of workwear and protective clothing is a stable market in Central Europe with a diversified customer and supplier base. Many companies in the region need customised workwear and corporate wear that cannot be fully provided by the Far East/Asian market. The pandemic has made production and delivery cycles even longer than before, drastically increasing costs. As a result, buyers have been favouring local European production more and more. With its workwear fabrics business, Textura has achieved good, mature market positioning in the Hungarian market, Romania and Croatia. In the Czech Republic, Slovakia and Serbia, the company is still in the growth phase. Textura's customers typically do not have long-term contracts with end users and usually do not keep large quantities of stock, so they need a partner like Textura to provide those things.

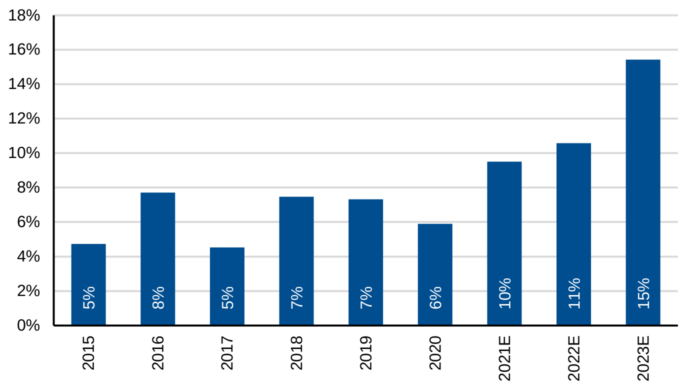
Positive growth prospects in plastics division, but no track record and strong competition

Textura only started its plastics business line in September 2021, so there is no reliable data available yet concerning its market shares or pricing power. The global coffee market is projected to grow robustly (Mordor Intelligence cites a CAGR of 4.3% for 2021-26). At this point there are only a few companies that offer 100%-biobased capsules like Textura does. The company therefore expects "fast growth to satisfy the increasingly environmentally conscious demand". We are more reserved as the company does not yet have the necessary size or pricing power and must compete against large multinational corporates like Nestlé, Nespresso, Lavazza and Starbucks. We are also cautious about Textura's swimming pool business as we see swimming pools as luxury goods and as investments that buyers can easily live without or postpone in the current insecure market environment. Textura is confident that the production of swimming pool bodies will utilise the full capacity of its SRM 7500 roto-moulding machine. However, the company intends to mitigate business risk by planning to produce other products such as polyethylene tanks.

Solid but volatile profitability

Scope-adjusted EBITDA margins have fluctuated between 5%-8% in the past, with Scope-adjusted EBITDA return on assets between 7%-11%. Although we expect these margins to increase to up to 15% in our financial base case, we also expect profitability to become even more volatile due to the uncertain development of Textura's coffee capsule and swimming pool business. Haircuts on revenues mean forecasted operating profitability is slightly lower in our financial base case than the 10%-17% EBITDA margin the company has forecasted.

Figure 1: Scope-adjusted EBITDA margin (%)



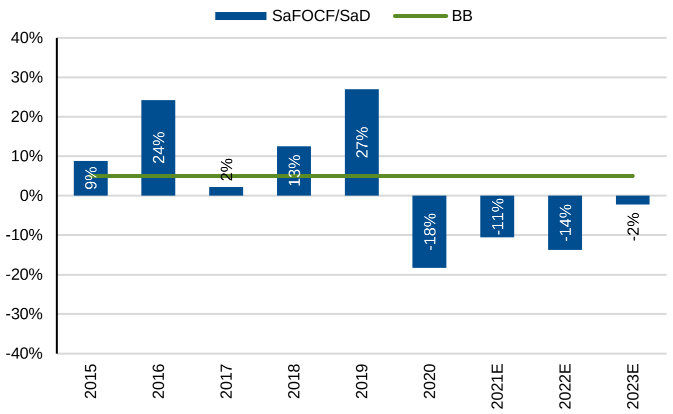
Sources: Textura Zrt., Scope estimates

Financial risk profile: B

Increasingly volatile free operating cash flows

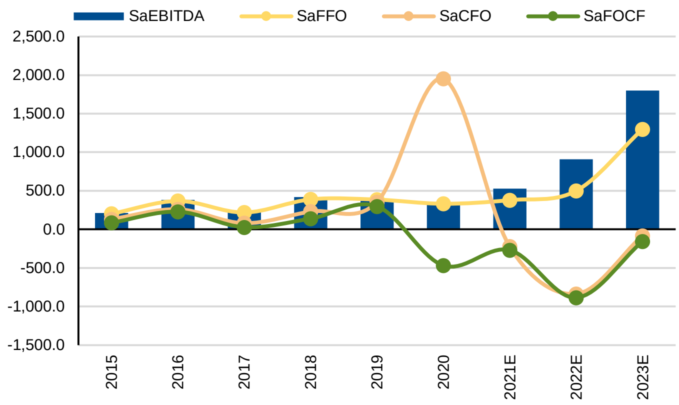
The company has shown volatile EBITDA development in the past, but it is planning for steady growth in future. We expect free operating cash flows to become increasingly volatile, driven by high capex in the years to come for developing the company's production site and purchasing new machines to make capsules and pool bodies.

Figure 2: Scope-adjusted FOCF/SaD



Sources: Textura Zrt., Scope estimates

Figure 3: Cash flows (HUF m)



Sources: Textura Zrt., estimates

Higher interest cover from use of credit lines and bond issuance, expected to level off at 2x-4x

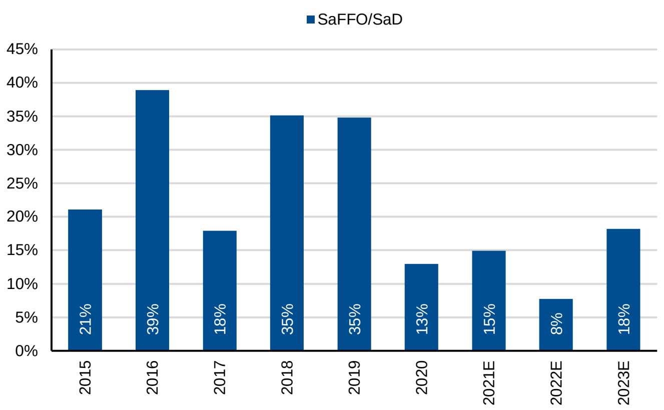
Interest cover was cash-positive in recent years and is forecasted to decrease slightly to Scope-adjusted EBITDA interest cover of between 2x-4x. Textura's volatile EBITDA and interest expenses result from two loans: a working capital loan of HUF 2,516m (utilisation as of Sep 2021: HUF 2,509m) and an investment loan of HUF 1,431m (HUF 1,255m).

Moderate leverage overall

Major capex measures planned to enhance the plastics business line

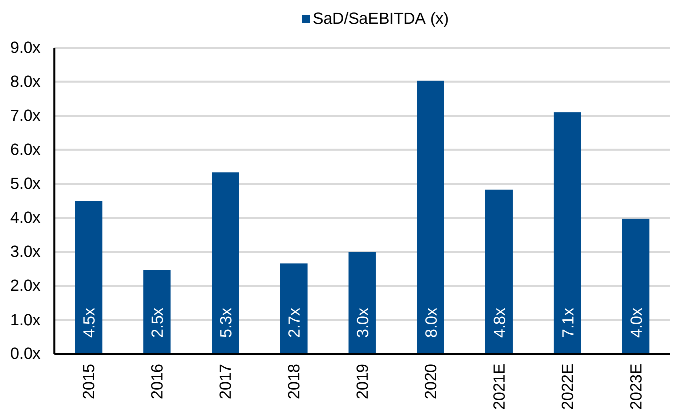
Leverage has been moderate in the past due to the company's regular utilisation of its working capital loan and investment loan. SaD/Scope-adjusted EBITDA will increase significantly to 7.1x in 2022 after the planned bond issuance. Scope-adjusted funds from operations will remain volatile due to the substantial steps Textura plans to take in terms of capex to enhance the plastics business line and develop the company's production site.

Figure 4: Scope-adjusted funds from operations/SaD (%)



Sources: Textura Zrt., Scope estimates

Figure 5: SaD/Scope-adjusted EBITDA



Sources: Textura Zrt., Scope estimates

Liquidity

Textura has no long-term loans and only two short-term credit lines: an investment loan and a working capital loan. We see this as a (manageable) risk in the current transformation of the company. Although the company has shown that it can generate sufficient cash, its business is very capital-intensive. With the new plastics business line, this will increase. Given that it has no proven track record in this new area, the company is dependent on banks being convinced of its strategy and continuing to regularly grant or extend short-term credit lines.

Position (HUF m)	2021E	2022E
Short-term debt (t-1)	2,523.4	2,500,0
Unrestricted cash (t-1)	0.0	0.0
FOCF (t)	-269.3	-886.0
Open committed credit lines (t-1)	0.0	0.0
Liquidity (internal and external)	**-0.1x**	**-0.4x**

Long-term debt instrument ratings

Senior unsecured guaranteed bond: (P)B+

Textura plans to issue a HUF 5.0bn bond guaranteed by the MNB Bond Funding for Growth Scheme with a fixed-rate coupon estimated at 3.9% and a 10-year tenor. Amortization will start after 5 years (in 2027) with an annual repayment of HUF 0.5bn and a remaining 50% bullet repayment in the final year (2032). Concerning the coupon, we were more cautious and assumed a higher value in our financial base case.

HUF 3.5bn of the bond proceeds will be used to develop the plastics business line. Specifically, HUF 1.35bn will go to developing the production site, HUF 1.15bn to purchasing new capsule manufacturing machines and HUF 1.0bn to purchasing new pool production machines. HUF 1.0bn will be used to refinance the company's current investment loan, and the remaining HUF 0.5bn will be to finance working capital expansion.

The planned HUF 5.0bn senior unsecured bond will be guaranteed 80% by the MFB (rated by Scope at BBB+/Stable), based on which Scope assigns a (P)B+ preliminary rating to the senior unsecured bond guaranteed by the MFB. In this case, Scope expects an 'above-average' recovery for this bond in a hypothetical default scenario based on a distressed liquidation value, resulting in one notch uplift above the issuer rating.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891-0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 30315 814

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

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