



## Press Release

### Grospinz Fabz Limited

April 20, 2020

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Bank Facilities- Long Term	96.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)
2.	Bank Facilities- Short Term	20.30	IVR A3 (IVR A Three)
	<b>Total</b>	<b>116.30 (One Hundred Sixteen Crore and Thirty Lakhs Only)</b>	

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Grospinz Fabz Limited (GFL) derives comfort from its experienced and resourceful promoters and long track record of operations, sustained growth in scale of operations with comfortable profit margins in FY19 and 11MFY20, gradual improvement in capital structure and debt protection metrics. The ratings also positively factors in its established clientele, proximity to raw material sources and Interest & power subsidy from government schemes. These rating strengths however gets tempered by susceptibility of profitability to fluctuations in cotton and cotton yarn prices, presence in intensely competitive and fragmented spinning industry and working capital intensive nature of its operations.

#### Key Rating Sensitivities

##### Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis with improvement in its capital structure
- Management of working capital requirements efficiently with improvement in liquidity position

##### Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure



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### Detailed Description of Key Rating Drivers

#### Key Rating Strengths:

##### **Experienced & resourceful promoters and fund infusion by the promoters**

The promoters, Mr. Babu Lal Grover (Managing Director), Mr. Navneet Grover (CEO) and Mr. Supneet Grover (Director) are associated with GFL since inception and has a vast experience of around four decades in the textile industry through GFL and its sister concern Muktsar Cotton (P) Ltd. Extensive experience of the promoters underpin the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors are well supported by an experienced team of professionals. The promoters have supported the business operations of GFL in times of need. The promoters have infused unsecured loan of Rs.12.89 Crore as on March 31st, 2019 and has undertaken to subordinate these unsecured loans to company's bank borrowings.

##### **Established clientele**

Long presence of the promoters in cotton trading segment has helped the company to develop longstanding relationship with various intermediaries in the value chain. Beside the domestic market, gradually it also expanded its operation in the overseas market like Bangladesh, Colombia, Portugal, Israel, Italy, Singapore, Malaysia, etc. GFL derives a substantial portion of its revenues from the export market (~46% of its total operating income in FY19).

##### **Proximity to raw material sources**

Both the units are located near major cotton growing areas like, Punjab, Haryana and Gujarat resulting in easy availability of quality raw materials and huge savings in transportation costs.

##### **Interest subsidy and power subsidy from government schemes**

The company receives some subsidies from the Government of Gujarat like, 7% subsidy on interest on loans, electricity at a discount of Rs.1.00 per unit, duty of 12% being waived-off on electricity bill and a waiver of 2.5% SGST over the sales done in local markets, which supports the margins of the company.

##### **Sustained growth in scale of operations with comfortable profit margins in FY19 and 11MFY20**

Total operating income (TOI) of the company grew at a CAGR of ~40% over the last three years (FY17-FY19) with y-o-y growth of about ~43% in FY19. The EBITDA margin has



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moderated from 7.97% in FY18 to 5.52% in FY19 mainly on account of increase in raw-material prices. Driven by the dip in EBITDA margin, the PAT margin also declined during the aforesaid period and stood at 1.44% in FY19. The gross cash accruals of the company grew from Rs.8.30 crore in FY18 to Rs.8.46 crore in FY19. Further, the company has also achieved y-o-y growth during 11MFY20, and earned a PAT of Rs.4.68 crore on a total revenue of Rs.268.52 crore. The EBITDA margin also improved and stood at 5.05% in 11MFY20.

### **Gradual improvement in capital structure and debt protection metrics**

The capital structure of the company witnessed gradual improvement as on the account closing dates of the past three fiscals ended on FY19 backed by steady accretion of profit to net worth during the aforesaid period and infusion of subordinated unsecured loans. The overall gearing stood moderate at 1.17x as on March 31, 2019 (1.46x as on March 31, 2018). Further, total indebtedness of the company as reflected by TOL/ANW remained comfortable at 1.58x as on March 31, 2019 (1.87x as on March 31, 2018). The debt protection metrics of the company also witnessed steady improvement backed by repayment of long-term borrowings and growing gross cash accruals during the past three financial years. The interest coverage ratio improved marginally from 2.67x in FY18 to 2.73x in FY19. Total debt to GCA also improved steadily from 8.39x in FY18 to 7.59x in FY19. Moreover, the interest coverage ratio improved and stood healthy at 4.32x in 11MFY20.

### **Key Rating Weaknesses**

#### **Susceptibility of profitability to fluctuations in cotton and cotton yarn prices**

The profit margins are highly susceptible to changes in the prices of cotton. The government through the Minimum Support Price (MSP) fixes the price of cotton. However, the purchase price depends on the prevailing demand-supply situation, which restricts bargaining power with suppliers as well. Any adverse movement of cotton prices further impacts profitability. Additionally, demand for yarn largely is driven by international demand supply dynamics, resulting in volatile margins.

#### **Intensely competitive and fragmented spinning industry**

The spinning industry is highly fragmented with presence of a large number of spinning mills, leading to intense competition in the industry. The company also faces stiff competition in the export market from the companies of other low-cost countries like Vietnam.



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### **Working capital intensive nature of its operations**

GFL's operations are characterised by high working capital intensity due to its business requirement of holding a large inventory (mainly raw materials). The inventory levels are high as the company stocks cotton for the harvest season, which ends in March, to meet a significant portion of its requirement during the subsequent period. Also, the company is majorly dependant on bank borrowing for its working capital requirements which stood ~92% utilized for the past 12-months ending February, 2020.

### **Analytical Approach: Standalone**

#### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies  
Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity: Adequate**

The company is expected to generate cash accrual in the range of Rs.10.50-12.50 crore during FY21-FY22, which is adequate to serve its debt repayment obligations during the aforesaid period, which is around Rs.7.00 crore. Its capex requirements are low and expected to be funded using internal accruals. Moreover, its bank limits are utilized to the extent of ~92% during the past 12 months ended February, 2020 indicating a moderate liquidity buffer as the company is looking for limit enhancement.

### **About the Company**

The textile spinning business of Grospinz Fabz Ltd. (GFL) comprises of two units of 53,568 spindles and is currently managed by Mr. Babu Lal Grover, Mr. Navneet Grover and Mr. Supneet Grover. The first unit of 31,680 spindles is located at Village Chaksaidoka, Jalalabad (W), Punjab. The second unit of 21,888 spindles is located in Antrolivas Punjaji, District Sabarkantha, Gujarat. GFL also has a sister concern, Muktsar Cotton Pvt. Ltd. which was started by Mr. Babu Lal Grover in the year 1985 and is in the business of cotton ginning. Most of GFL's raw-material requirements is sourced from here.



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### Financials: Standalone

(Rs. Crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	182.96	262.18
EBITDA	14.58	14.46
PAT	3.41	3.78
Total Debt*	69.66	64.25
Tangible Net worth*	47.79	54.80
EBITDA Margin (%)	7.97	5.52
PAT Margin (%)	1.86	1.44
Overall Gearing Ratio (x)*	1.46	1.17

\*as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	51.29	IVR BBB-/Stable	-	-	-
2.	Term Loan	Long Term	44.71	IVR BBB-/Stable	-	-	-
3.	FBP/ EBR	Short Term	18.00	IVR A3	-	-	-
4.	Bank Guarantee	Short Term	1.50	IVR A3	-	-	-
5.	Forward Contracts	Short Term	0.80	IVR A3	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it based on complexity and a note thereon is available at [www.infomerics.com](http://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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### 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 Bank Facilities– Cash Credit	NA	NA	NA	51.29	IVR BBB-/ Stable Outlook
Long Term Bank Facilities– Term Loan	NA	NA	March, 2027	44.71	IVR BBB-/ Stable Outlook
Short Term Bank Facilities– FBP/ EBR	NA	NA	NA	18.00	IVR A3
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	1.50	IVR A3
Short Term Bank Facilities– Forward Contract	NA	NA	NA	0.80	IVR A3