



Press Release

Grospinz Fabz Limited

September 30, 2022

Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities	162.16 (enhanced from Rs. 92.16 crore)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	34.10 (enhanced from Rs 20.30 crore)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	196.26	Rupees One Hundred Ninety Six Crore and Twenty Six Lakhs only		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuations and Ratings Private Limited (IVR) has reaffirmed long-term rating of IVR BBB with a Stable Outlook and short-term rating of IVR A3+ for the bank loan facilities of Grospinz Fabz Limited (GFL).

The reaffirm in rating to the above-mentioned bank facilities of Grospinz Fabz Limited (GFL) is on account of extensive experience of promoters, established clientele base, locational advantages, sustained growth in operating performance and moderate capital structure with comfortable debt protection. However, the ratings are constrained by exposure to agro climatic risks and government regulations and intense competition prevalent in the cotton industry and availability of other substitutes.

IVR has principally relied on the standalone audited financial results of GFL upto 31 March 2021, provisional financials for FY22 and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the firm's management.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis.



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- Prudent working capital management with improvement in liquidity position.

Downward Factors

- Moderation in scale of operations and/or profitability impacting the operating margin debt protection metrics on a sustained basis
- Withdrawal of unsecured loan from promoters
- Moderation in the capital structure

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced 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 support to develop established relationship with its customers which enabled the company to receive repeat orders, with a strong order book position.

Established clientele

Long standing presence of the promoters in processing of cotton yarn segment has helped the company to develop longstanding relationship with suppliers and customers. GFL derives ~58% of revenue in FY22 (provisional) from overseas market like Bangladesh, Colombia, Portugal, Turkey, etc and the remaining from domestic market like Punjab, Gujrat, Rajasthan, Haryana etc.

Locational advantage

GFL is engaged in manufacturing of cotton yarn. Favourable location of the plant in close proximity to cotton growers in Punjab and Gujrat has led to development of long-term relationships with the suppliers and therefore easy procurement of raw materials. The presence in these regions gives a competitive advantage in terms of easy availability of quality raw material, and huge saving in transportation cost, and favourable pricing terms.



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Sustained growth in operating performance

The total operating income of the company has witnessed an increasing trend during FY19-FY22 with y-o-y growth of 54.58% in FY22 (provisional). The total operating income improved from Rs. 320.38 crore in FY21 to Rs. 487.64 crore in FY22 (provisional) driven by repeated orders from existing customers, few new customer and realisation of the same. The profitability of company in terms of EBITDA margin has improved from 5.72% in FY21 to 6.10% in FY22 (provisional) this is mainly because increase in total operating income. However, PAT margin has improved in FY22 and stood at 2.74% (PY: 2.03%).

Moderate capital structure with comfortable debt protection

The company has a moderate capital structure on account of modest adjusted net worth of Rs 88.68 crore as on March 31, 2022 (provisional) (Rs 65.88 crore as on March 31, 2021). The overall gearing remains comfortable and improved from 1.58x in FY21 to 1.08x in FY22 (provisional) this was on account of decrease in long term debt. Total indebtedness of the company as reflected by the TOL/ATNW improved from 1.46x in FY21 to 1.21x in FY22 driven by steady accretion of profits to reserves. The debt protection metrics of the company remained comfortable over the years. The interest coverage ratio remained strong at 5.25x as on March 31, 2022 (provisional) and 3.40x as on March 31, 2021. Total debt to GCA stood at 4.84 years as on March 31, 2022 (provisional). The debt protection metrics are likely to remain strong over the medium term.

Key Rating Weaknesses

Exposure to agro climatic risks and government regulations

Cotton being an agro-commodity is susceptible to agro-climatic risks. 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.



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Intense competition prevalent in the cotton industry and availability of other substitutes

The company is exposed to intense competition prevalent in the highly fragmented cotton industry and faces stiff competition from both organised and unorganised players. Also, the company faces risk from its substitutes such as polyester and manmade fibre. For the competitive landscape, the company faces stiff competition in the domestic market. Further, the margins of the company are under continuous threat of seasonal product cycle.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity –Adequate

GFL earned gross cash accruals of Rs.19.77 crore as against its repayment obligation of Rs.7.27 crore as on March 31, 2022 (provisional). The company's utilisation for fund-based working capital limits for last 12 months ending March 2022 stood at ~92% indicating insufficient cushion available in case of adversities. The company has a current ratio of 1.66x as of March 31, 2022. Moreover, the company is expected to generate cash accruals in the range of Rs.22.00- 30.00 crore as against its debt servicing obligation of ~Rs.6.80 to 11.00 crore FY23-25. The company has adequate cash and cash equivalents amounting to Rs.14.51 crore as on March 31, 2022. All these factors reflect adequate liquidity position of the company.

About the Company

The textile spinning business of Grospinz Fabz Limited (GFL) comprises of two units of 55,000 spindles and is currently managed by Mr. Babu Lal Grover, Mr. Navneet Grover and Mr. Supneet Grover. The first unit of 33,000 spindles is located at Village Chaksaidoka, Jalalabad (W), Punjab. The second unit of 22,000 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 as a proprietorship firm and was later



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registered as private entity is 1996 and is in the business of cotton ginning. Most of GFL's raw-material requirements are sourced from here.

Financials (Standalone):

(Rs. Crore)		
For the year ended*	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	320.38	487.64
EBITDA	18.35	30.28
PAT	6.51	13.62
Total Debt	104.41	95.59
Adjusted Tangible Net worth	65.88	88.68
EBITDA Margin (%)	5.72	6.10
PAT Margin (%)	2.03	2.74
Overall Gearing Ratio (x)	1.58	1.08

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Acuite Ratings has moved the rating into issuer not cooperating category vide its press release dated June 13, 2022 due to non submission of information.

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating (Sep 30, 2022)	Rating (Jul 15, 2022)	Date(s) & Rating(s) assigned in 2021-22 (May 12, 2021)	Date(s) & Rating(s) assigned in 2020-21 (Apr 20, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	58.00 (enhanced from Rs. 45.00 crore)	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
2.	Term Loan	Long Term	92.76 (enhanced from Rs. 35.76 crore)	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
3.	Covid Loans	Long Term	11.40	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB-/ Stable	-	-



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4.	Foreign Bill Purchase	Short Term	30.00 (enhanced from Rs. 18.00 crore)	IVR A3+	IVR A3+	IVR A3	IVR A3	-
5.	Bank Guarantee	Short Term	2.50 (enhanced from Rs. 1.50 crore)	IVR A3+	IVR A3+	IVR A3	IVR A3	-
6.	Forward Contracts	Short Term	1.60 (enhanced from Rs. 0.80 crore)	IVR A3+	IVR A3+	IVR A3	IVR A3	-

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.



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For more information visit www.infomerics.com.

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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/ EPC	-	-	-	58.00	IVR BBB/ Stable
Long Term Bank Facilities – Term Loans	-	-	-	92.76	IVR BBB/ Stable
Long Term Bank Facilities – Covid Loans	-	-	-	11.40	IVR BBB/ Stable
Short Term Bank Facilities – Foreign Bill Purchase	-	-	-	30.00	IVR A3+
Short Term Bank Facilities – Bank Guarantee	-	-	-	2.50	IVR A3+
Short Term Bank Facilities – Forward Contract	-	-	-	1.60	IVR A3+



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Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Grospinz-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [Complexity Level of Rated Instruments/Facilities](#).