



Press Release

Grospinz Fabz Limited

May 12, 2021

Ratings

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

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Grospinz Fabz Limited (GFL) continues to 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 FY20 and FY21(Prov), moderate capital structure and comfortable debt protection metrics. The ratings also positively factors in its established clientele, proximity to raw material and efficient working capital intensive operations. These rating strengths however gets tempered by susceptibility of profitability to fluctuations in cotton and cotton yarn prices, presence in intensely competitive and fragmented cotton industry and availability of other substitutes

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis.
- Prudent working capital management with improvement in liquidity position

Downward Rating Factors

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



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- Withdrawal of unsecured loan from promoters
- Moderation in the capital structure

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 which enabled the company to receive repeat orders, with a strong order book position. Further, the directors are well supported by an experienced team of professionals. The promoters have infused unsecured loan of Rs.9.06 Crore as on March 31st, 2020 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 suppliers and customers. GFL derives approx. ~42% of revenue in FY21(Prov) from overseas market like Bangladesh, Colombia, Portugal, Turkey, etc and the remaining from domestic market like Punjab, Gujrat, Rajasthan, Haryana ,etc.

Locational advantage

Grospinz Fabz Limited 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 in FY20 and FY21(Prov)

Total operating income (TOI) of the company grew at a CAGR of ~17% over the last three years (FY18-FY20) with y-o-y growth of about ~11% in FY20. The growth in total operating income is driven by repeat orders from existing customers, a few new customer and realisation of the same. Although the EBITDA has moderated from Rs 14.46 crore in FY19 to Rs 13.06 crore in FY20 mainly on account of increase in raw material prices. However, The PAT has improved from Rs 3.78 crore in FY19 to Rs 4.05 crore in FY20 due to decrease in interest cost. Further, the company has also achieved y-o-y growth during FY21(Prov) with operating income of Rs321.30 crore and EBITDA of Rs.17.82 crore. The EBITDA and PAT margin also improved and stood at 5.55%,1.49% in FY21(Prov).

Moderate capital structure with comfortable debt protection

The company has a moderate capital structure on account of modest net worth of Rs 53.57 crore as on March 31,2020 (Rs 58.38 crore in FY21(Prov)).The long term debt equity and overall gearing moderated from 0.70x, 1.34x FY19 to 0.84x,1.81x in FY20 to 0.85x, 1.88x in FY21(Prov)due to increase in debt to finance the enhanced capacity at Gujrat plant and fund based limit for foreign bill discounting. GFL total debt comprises of term loan of Rs 40.42 with repayment of Rs 3.64 crore, and bank borrowings of Rs 59.69 crore as on March 31,2021(Prov). Unsecured loan from promoters and family to the extend of Rs 9.06 crore is treated as quasi equity in FY21.Total indebtedness of the company as reflected by the TOL/TNW stood at 1.98x as on March 31,2021(Prov)(1.93x in FY20). The debt protection metrics of the company remained comfortable over the years. The gross cash accrual of company witnessed an improvement from Rs 8.30 crore in FY18 to Rs 8.46 crore in FY19 and Rs 9.37 crore in FY20 to Rs 10.85 crore in FY21(Prov).The interest coverage ratio remained strong at 3.76x as on March 31,2020 and 2.74x as on March 31,2021(Prov). Total debt to GCA stood at 10.37 years as on March 31,2020. The debt protection metrics are likely to remain strong over the medium term.

Working capital intensive nature of its operations

Operations of the company are working capital intensive, marked by its efficient operating cycle of 69 days with 22 days of collection period and days 4 days of creditors period in FY20



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.GFL maintains an inventory of raw material (cotton) for 51 days in FY20 as it stocks raw material(cotton) from the harvest season, and ensure adequate amount of cotton is stored to carry out the smooth functioning of the company operations. The operating cycle stood at 84 days with collection period of 35 days and inventory period of 51 days in FY20(Prov)GFL has utilised ~85% of working capital in 12 months ended March 2021 providing limited liquidity cushion.

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.

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)



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Liquidity: Adequate

The company earned a GCA of Rs.9.37 crore in FY20 as against its repayment obligation of Rs.6.38crore. Further, the liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual in the range of ~Rs.10-11 crore during FY21-23 as against its scheduled repayment obligation in the range of ~Rs.3-7 crore during the aforesaid period. However, its bank limits remained highly utilized to the extent of ~85% during the past 12 months ended March, 2021 indicating a limited liquidity buffer.

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.

Financials: Standalone

	(Rs. Crore)	
For the year ended* / As On	31-03-2020 (Audited)	31-03-2021 (Prov)
Total Operating Income	291.18	321.30
EBITDA	13.06	17.82
PAT	4.06	4.81
Total Debt*	97.13	109.58
Tangible Net worth*	53.57	58.38
EBITDA Margin (%)	4.48	5.55
PAT Margin (%)	1.39	1.49
Overall Gearing Ratio (x)*	0.84	0.85

*as per Infomerics' standards

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

Any other information: N.A.



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	45.00	IVR BBB-/Stable	IVR BBB-/Stable	-	-
2.	Term Loan	Long Term	44.70	IVR BBB-/Stable	IVR BBB-/Stable	-	-
3.	Covid line	Long Term	6.30	IVR BBB-/Stable			
3.	FBP/ EBR	Short Term	18.00	IVR A3	IVR A3	-	-
4.	Bank Guarantee	Short Term	1.50	IVR A3	IVR A3	-	-
5.	Forward Contracts	Short Term	0.80	IVR A3	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.

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About Infomerics:

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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	-	-	-	45.00	IVR BBB-/ Stable Outlook
Long Term Bank Facilities– Term Loan	-	-	March, 2027	44.70	IVR BBB-/ Stable Outlook
Long Term Bank Facilities- Covid line	-	-	-	6.30	IVR BBB-/ Stable Outlook
Short Term Bank Facilities– FBP/ EBR	-	-	-	18.00	IVR A3
Short Term Bank Facilities– Bank Guarantee	-	-	-	1.50	IVR A3
Short Term Bank Facilities– Forward Contract	-	-	-	0.80	IVR A3

Annexure-II: Facility Wise Lender Details

<https://www.infomerics.com/admin/prfiles/len-Grospinz-Fabz-Limited.pdf>