



## Press Release

### Grospinz Fab Limited

August 28, 2023

#### Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	<a href="#">Complexity Indicator</a>
1.	Long Term Bank Facility	99.91	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
2.	Short Term Bank Facilities	87.50	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
	<b>Total</b>	<b>187.41</b>	<b>Rupees One Hundred Eighty Seven Crore and Forty One Lakhs Only</b>			

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed the rating for long-term rating at IVR BBB with stable outlook and the short-term rating at IVR A3+ for the bank loan facilities of Grospinz Fab Limited (GFL).

The rating continues to draw comfort from its experienced promoters, established clientele, locational advantage, stable business performance in FY2023 and completed capex expected to boost the scale of operations, moderate capital structure with satisfactory debt protection metrics. However, these rating strengths are partially offset by profitability susceptible to volatility in the cotton prices, commoditized nature of product leads to limited product differentiation, resulting in intense competition in a highly fragmented industry, cyclicality in cotton availability and seasonal demands for stocking, resulting in high working capital requirement.



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IVR has principally relied on the audited financial results of GFL's up to 31 March 2022, management certified provisional results for FY2023 and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the company's management.

### Upward Factors

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

### Downward Factors

- Decline in scale of operations and/or profitability impacting the operating margin and debt protection metrics on a sustained basis.
- Moderation in the capital structure and/or moderation in debt protection metrics.
- Withdrawal of unsecured loan from the promoters and/or stretch in operating cycle leading to moderation in liquidity position.

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



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### **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 ~61% of revenue in FY2023 (provisional) 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. Favorable 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 favorable pricing terms.

### **Stable business performance in FY23 and completed capex expected to boost the scale of operations:**

The business performance of the company remained stable in FY2023(P). The total operating income though moderated from Rs.470.52 crore in FY2022 to Rs.445.85 crore in FY2023(P), the profitability of company in terms of EBITDA margin has improved from 3.71% in FY2022 to 5.63% in FY2023 (P) on the back of dip in the cost of production. Simultaneously, PAT margin has improved in FY2023(P) and stood at 2.79% (PY: 2.45%). During Q1FY24, the company has achieved a revenue of Rs.113.45 crore. The company has concluded its capacity expansion capex during Q1FY24 hence the scale of operations is expected to improve going forward.

### **Moderate capital structure with satisfactory debt protection metrics:**

The company continues to have a moderate capital structure. The overall gearing ratio of the company stood moderate at 2.34x as on March 31,2023(P) as against 2.00x as on March 31,2022. The moderation was on account of rise in total debt attributable to rise in long term debt availed for recently concluded capex. However, during FY2023 the promoters have infused equity of Rs.6.00 crore (Rs.1.88 crore and Rs.4.12 crore in the form of equity share capital and security premium reserve respectively) to support the operations. Total



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indebtedness of the company as reflected by the TOL/TNW also stood moderate at 2.49x as on March 31, 2023 (P). The debt protection metrics of the company remained comfortable over the years. The interest coverage ratio remained healthy at 2.92x in FY2023 (P.) and 2.46x in FY2022. Total debt to GCA stood moderate at 10.22 years as on March 31, 2023 (P.) as against 7.21 years as on March 31, 2022. The debt protection metrics are likely to remain healthy over the medium term.

### **Key Rating Weaknesses**

#### **Profitability susceptible to volatility in the cotton prices:**

Raw material (mainly cotton) costs are the major costs for the company, which accounted for close to 70%-80% of the revenues over the past three years. The company ends to procure the entire year's requirement during the peak cotton season and hence is susceptible to fluctuations in cotton and yarn prices, which depend on factors such as seasonality, monsoon condition, international demand and supply situation, export policy, etc., during the year.

#### **Commoditized nature of product leads to limited product differentiation, resulting in intense competition in a highly fragmented industry:**

Cotton yarn is a commoditized product with low product differentiation. This results in intense competition in a fragmented industry structure with a large presence of organized and unorganized players, which limits scope of margin expansion.

#### **Cyclicality in cotton availability and seasonal demands for stocking, resulting in high working capital requirement:**

Owing to cyclicality in availability of cotton, the company is required to undertake seasonal stocking, which typically stretches from October to March in a fiscal year, ensuring uninterrupted supply of high-quality cotton at favourable rates. This entails high working capital requirement during the season and results in higher inventory holding and debtors' position towards the year-end, resulting in high working capital intensity in the business. Furthermore, the Gross Current Asset (GCA) days of GFL stood at 118 days in FY2023 (P).



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**Analytical Approach:** For arriving at the ratings, IVR has analysed GFL's credit profile by considering the standalone financial statements of the company.

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook](#)

**Liquidity – Adequate**

The liquidity position of the company appears to be adequate in the near term. The company's fund-based working capital limits utilisation for last 12 months ending March 2023 stood at ~80% indicating moderate liquidity buffer. The company has a current ratio of 1.71x as on March 31, 2023(P). Moreover, the company is expected to generate cash accruals in the range of Rs.27.90- Rs.37.92 crore as against its debt servicing obligation of ~Rs.13.06 to Rs.18.08 crore during FY2024-FY2026. The company has cash and cash equivalents amounting to ~Rs.5 crore as on March 31, 2023(P), to support its liquidity.

**About the Company**

The textile spinning business of Grospinz Fabz Ltd. (GFL) comprises 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 registered as private entity in 1996 and is in the business of cotton ginning. Most of GFL's raw-material requirements are sourced from here. Therefore, the company has good control over the quality of the raw material being used.



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### Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2022	31-03-2023
	<b>Audited</b>	<b>Provisional</b>
Total Operating Income	470.52	445.85
EBITDA	17.48	25.10
PAT	11.84	12.66
Total Debt	133.41	199.86
Tangible Net worth	66.78	85.44
EBITDA Margin (%)	3.71	5.63
PAT Margin (%)	2.45	2.79
Overall Gearing Ratio (x)	2.00	2.34

*\*Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Acuite vide press release dated June 13, 2022, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

**Any other information:** Nil





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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (September 30, 2022)	Date(s) & Rating(s) assigned in 2022-23 (July 15, 2022)	Date(s) & Rating(s) assigned in 2021-22 (May 12, 2021)
1.	Fund Based	Long Term	99.91	IVR BBB/Stable (Reaffirmed)	IVR BBB/Stable	IVR BBB/Stable	IVR BBB-Stable
2.	Fund Based	Short Term	80.00	IVR A3+ (Reaffirmed)	IVR A3+	IVR A3+	IVR A3
3.	Non-Fund Based	Short Term	7.50	IVR A3+ (Reaffirmed)	IVR A3+	IVR A3+	IVR A3

**Name and Contact Details of the Rating Analyst:**

Name: Mr. Om Prakash Jain

Tel: (011) 45579024

Email: [opjain@infomerics.com](mailto:opjain@infomerics.com)



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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://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 Facility- Term Loan – I	-	-	December 2026	15.31	IVR BBB/Stable
Long Term Facility- Term Loan – II	-	-	January 2026	12.93	IVR BBB/Stable
Long Term Facility- Term Loan – III	-	-	February 2026	53.67	IVR BBB/Stable
Long Term Facility- GECL	-	-	December 2027	10.00	IVR BBB/Stable
Long Term Facility- Cash Credit	-	-	-	8.00	IVR BBB/Stable
Short Term Facility- EPC/PCFC	-	-	-	50.00	IVR A3+
Short Term Facility- EBR/Non-LC Bill Discounting	-	-	-	30.00	IVR A3+
Short Term Facility-Bank Guarantee	-	-	-	2.50	IVR A3+
Short Term Facility- Forward Contract	-	-	-	5.00	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-GFL-aug23.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](#).