

Press Release

GTN Textiles Limited

October 11, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	1.63	IVR BB - / Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Cash Credit	21.60	IVR BB - / Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities – EPC/PCFC	14.40	IVR A4 (IVR A Four)	Assigned
Short Term Bank Facilities – Letter of credit/Bank Guarantee	28.50	IVR A4 (IVR A Four)	Assigned
Total	66.13		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of GTN Textiles Limited (GTL) derives comfort from its experienced promoters with its long industry experience, benefits of group synergy being a part of the GTN group engaged in spinning of cotton yarn, along with value-added facilities like twisting, gassing and soft winding through various companies under its fold and its reputed clientele with diversified market presence. The rating strengths are partially offset by, susceptibility of profitability to volatility in cotton and cotton yarn prices and currency movements, fragmented nature of the industry characterized by intense competition from large number of players, low operating margin because of high labour costs and weak financial profile marked by weak debt service coverage indicators.

Key Rating Sensitivities:

Upward factors

- Sharp increase in total operating income with profitable operations
- Improvement in the outlook of cotton yarn industry

Downward factors

- Deterioration in overall gearing to over 1.5 times
- Change in support philosophy of the promoters

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long industry experience

GTL is a part of GTN group promoted by, Late Mr. M.L. Patodia. Presently, Mr. B.K. Patodia (Son of Mr. M.L. Patodia) who has over five decades of experience in spinning industry is at the helm of affairs of the company. The group derives its strength from rich experience of promoters in marketing of cotton yarns in international market for over three decades.

Group Synergy

The GTN group is a major textile conglomerate engaged in the spinning of cotton yarn, along with value-added facilities like twisting, gassing and soft winding through various companies under its fold. It operates four textile mills across Tamil Nadu and Kerala through various companies under its fold. The group has been operating in the cotton yarn market for over five decades, enjoying established relationship with customers and suppliers in both the domestic and exports markets. The other companies of the group are, PATSPIN India Ltd. and GTN Enterprises Ltd (rated: IVR BB/Stable). Major activities such as procurement, marketing, order allocation etc. are done at the group level. All companies of the group including GTL benefits from this kind of arrangement.

Reputed clientele with diversified market presence

GTL has an established and reputed clientele driven by its longstanding presence in the industry. Further, the company exports fine and super fine counts of yarn to various countries. The company has been able to derive a significant portion of its revenues from exports (~42% in FY19), thereby reducing its dependence on domestic market (which had faced a slowdown post demonetization and GST implementation). The exports are primarily to Germany, Sri Lanka, Japan, South Korea, Italy, Bangladesh, Singapore, Turkey, Belgium, USA.

Key Rating Weaknesses

Susceptibility to volatility in cotton and cotton yarn prices, and currency movements

Similar to other entities in the spinning sector, the profitability of GTL remains exposed to volatility in cotton prices due to stocking of cotton during the harvest season. Further, the inability to pass on any increase in raw material prices to the end customer may adversely impact the profitability. With GTL importing a significant portion of raw materials

requirement, the margins remain exposed to fluctuations in forex rates, however, the risk is partly mitigated by the natural hedge provided by export sales.

Fragmented industry characterized by intense competition from large number of players

The industry is fragmented to a large extent with the presence of numerous small sized companies along with various large and established players. This exerts pressure on the margins of the company.

Low operating margin because of high labour costs

The EBITDA margins of the company have been low over the past periods, except for FY18 when the company registered a commission income of Rs.6.80 (agency business commission) crores. However, the effect has been pronounced in FY2019 due to rise in cotton prices as compared to realisations, pulling down the EBITDA margin to 2.82%. However, the spreads continue to remain high due to focus on the finer counts. Further, high wage rates in Kerala also affected the operating margin to an extent.

Weak financial profile marked by weak debt service coverage indicators

The financial profile remains constrained due to low earnings during the recent fiscals, resulting in sustained net losses and consequent erosion of net worth. Further, inherent high working capital intensity in the business, coupled with debt funded capex and high repayment obligations have resulted in strained liquidity position, leading to continued dependence on funding support from the promoters and external debt to support its cash flows. During FY19, the company has incurred a cash loss of about Rs.5.16 crore as against a cash profit of Rs.1.05 crore in FY18. Due to its weak profitability and depressed accruals the debt service coverage indicators of the company remained weak.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

GTL's liquidity position was poor in the last three fiscals owing to low earnings from operations, high debt repayment obligations coupled with the inherent high working capital intensity in the business leading to continued dependence on funding support from promoters and external debt to support its cash flows. Average utilisation of its fund based limits stood at ~98% during the 12 month period ended May 2019. Going forward, any improvement in

GTL's liquidity position would remain dependent on its ability to expand its operating profitability, in the absence of which dependence on funding support from promoters and external sources would remain critical to support cash flows. Besides the company has identified surplus land admeasuring 5.07 acres at the company's plant. The company has already received requisite permission for the first phase of 1.23 acres of land for sale into plots, including consent from its lenders. Steady monetization of the same will be critical to repay the high cost ICD's, payments for VRS to reduce overall wage cost and improving the working capital position.

About the Company

GTN Textiles Ltd (GTL) is a listed public company having its registered office in Ernakulam, Kerala. GTL produces yarn counts ranging from 30s to 120s, with high concentration on the fine/superfine counts (60s and above). The company has an installed capacity of 51,808 spindles of which 27,840 spindles run on compact spinning system and the rest on the ring frame system.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	142.79	142.26
EBITDA	11.87	4.01
PAT	-2.18	-7.33
Total Debt	59.78	55.73
Tangible Net worth	98.69	98.27
EBITDA Margin (%)	8.31	2.82
PAT Margin (%)	-1.53	-5.14
Overall Gearing Ratio (x)	0.61	0.57

**As per Infomerics standards*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Term Loan	Long Term	1.63*	IVR BB - / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Cash Credit	Long Term	21.60	IVR BB - / Stable Outlook	-	-	-
3.	Short Term Fund Based Limits – EPC/PCFC	Short Term	14.40	IVR A4	-	-	-
4.	Short Term Non-Fund Based Limits – Letter of credit/Bank Guarantee	Short Term	28.50	IVR A4			

*Outstanding as on March 31, 2019

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 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 Fund Based Limits – Cash Credit	-	-	-	21.60	IVR BB - / Stable Outlook
Long Term Fund Based Limits – Term Loan	-	-	March,2020	1.63*	IVR BB - / Stable Outlook
Short Term Fund Based Limits – EPC/PCFC	-	-	-	14.40	IVR A4
Short Term Non- Fund Based Limits – Letter of credit/Bank Guarantee				28.50	IVR A4

*O/S as on March 31, 2019.