

Press Release

GTN Enterprises Limited

February 11, 2019

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits	41.20	IVR BB /Stable Outlook (IVR Double B with Stable Outlook)
2.	Long Term Debt- Term Loans	7.99	IVR BB /Stable Outlook (IVR Double B with Stable Outlook)
3.	Short Term Non-Fund Based Facilities	44.00	IVR A4 (IVR A Four)
	<b>Total</b>	<b>93.19</b>	

Details of Facilities are in Annexure 1

**Detailed Rationale**

The rating derives strength from the experienced promoters with long industry experience, improving gearing and debt coverage indicators, established relationship with clients and suppliers and diversified market presence. The rating however is constrained by weak profitability, raw material price risk, foreign exchange risk and working capital intensive operations. Input price volatility, profitability and working capital management are the key rating sensitivities.

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

**Experienced promoters with long industry experience**

GEL is promoted by Mr. B.K. Patodia, who has an experience of over five decades in this industry. He holds an engineering degree from BITS- Pilani. He established the GTN group in 1966, when he started a spinning mill in Kerala (GTN Textiles Limited). His son, Mr. Ankur Patodia is the Managing Director of the company.

## **Improving gearing and debt coverage indicators**

Gradual repayment of debt has helped the company to improve its overall gearing ratio. The long term debt to equity ratio was comfortable at 0.25x as on March 31, 2018. Despite of higher credit period availed, TOL/TNW was moderate at 2.63x as on March 31, 2018.

## **Established relationship with clients and suppliers**

GEL has established relationship with its clients. The top 10 clients contribute to around 46% of the total sales indicating a reasonably diversified client base. The company has long term business relation and established supply arrangements for procuring the raw material.

## **Diversified market presence**

The company exports fine and super fine counts of yarn top various countries. The company has been able to derive a significant portion of its revenues from exports, thereby reducing its dependence on domestic market.

## **Key Rating Weakness**

### **Weak profitability**

The profitability margins of the company are low. The EBIDTA margin has historically been in the range of 7.5%-8%, with FY17 being an exception where the company reported EBITDA margin of 11% (better performance of the industry). However, the company has reported losses at the PBT level due to high interest expenses.

### **Raw material price risk**

The primary raw materials for the company are raw cotton and cotton yarn. The prices of these raw materials are impacted by various factors like monsoon, government policies (MSP), demand-supply etc. As a result, the prices of cotton have been volatile over the last few years.

### **Foreign exchange risk**

As the company has imports as well as exports in USD, it provides a natural hedge against the foreign currency risk to great extent. As per the management, the company generally hedges around 75% of its net exposure. Since the import and export operation of the company is simultaneously going on throughout the year, the time difference is insignificant to cause any FOREX risk.

## **Working capital intensive operations**

Operations of the company are working capital intensive with high reliance on creditors (155 days in FY18), although the average receivable collection days was moderate at 67 days in FY18. The inventory days was also high due to high raw material holding days given the industry standard.

## **Analytical Approach & Applicable Criteria:**

Standalone

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition and Post-Default Curing Period

## **Liquidity**

The company is earning a modest level of cash accruals and the same is expected to increase gradually with increase in scale of operation and level of margin, while the long term debt is likely to reduce indicating lower debt servicing obligations. In the past, the company had monetized few of its assets for paying its debt obligations and the same can be done in case the need arises. However, this is unlikely as the debt obligations of the company in the near future are low. All these factors indicate a moderate degree of liquidity support to the company in meeting its debt obligations.

## **About the Company**

GTN Enterprises Limited (GEL) is an unlisted public limited company. The company commenced operation in the year 2005 and is engaged in manufacturing and export of fine and super fine combed cotton yarn from its manufacturing facility located at Udumalpet (Tamil Nadu). GEL is also engaged in trading of yarn, where some value addition (doubling, winding etc.) is done by the company. The company was promoted by Mr. B.K. Patodia who has over five decades of experience in spinning industry. Mr. Patodia holds an engineering degree from BITS Pilani. He is a renowned name in the textile industry. His son, Mr. Ankur Patodia is the Managing Director of the company. GEL is a part of GTN group, a major textile conglomerate having presence in spinning, yarn dyeing, knitting, knit processing and garmenting. GTN group comprises of GTN Textiles Ltd, PATSPIN India Ltd. and GTN Enterprises Ltd. Major activities such as procurement, marketing, order allocation etc. are done at the group level.

**Financials (Standalone basis)**

**(Rs. crores)**

<b>For the year ended* / As On</b>	<b>31-03-2017 (Audited)</b>	<b>31-03-2018 (Audited)</b>
Total Operating Income	175.25	158.23
EBITDA	19.79	12.56
PAT	15.94	2.59
Total Debt	64.06	59.90
Tangible Networth	40.66	43.25
EBITDA Margin (%)	11.29	7.93
PAT Margin (%)	8.36	1.64
Overall Gearing Ratio (x)	1.58	1.38

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** N.A

**Rating History for last three years:**

<b>Sl. No.</b>	<b>Name of Instrument/ Facilities</b>	<b>Current Rating (Year 2018-19)</b>			<b>Rating History for the past 3 years</b>		
		<b>Type</b>	<b>Amount outstanding (Rs. crore)</b>	<b>Rating</b>	<b>Date(s) &amp; Rating(s) assigned in 2017-18</b>	<b>Date(s) &amp; Rating(s) assigned in 2016-17</b>	<b>Date(s) &amp; Rating(s) assigned in 2015-16</b>
1.	Fund Based Facilities	Long Term	41.20	IVR BB /Stable Outlook	--	--	--
2.	Term Loan	Long Term	7.99	IVR BB /Stable Outlook	--	--	--
3.	Non-Fund Based Facilities	Short Term	44.00	IVR A4			

**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](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. 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 Fund Based Limits	--	--	--	41.20	IVR BB /Stable Outlook (IVR Double B with Stable Outlook)
Long Term Debt-Term Loan	--	--	March 2023	7.99	IVR BB /Stable Outlook (IVR Double B with Stable Outlook)
Short Term Non-Fund Based Facilities	--	--	--	44.00	IVR A4 (IVR A Four)