

March 02, 2023

Grentex & Company Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund based limits	10.00	10.00	[ICRA]A3+; upgraded from [ICRA]A3
Short term – Non Fund based limits	5.00	2.00	
Long term/Short term – Unallocated limits	12.00	15.00	[ICRA]BBB(Stable)/ [ICRA]A3+; upgraded from [ICRA]BBB- (Stable)/[ICRA]A3
Total	27.00	27.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings upgrade takes into consideration ICRA's expectations that the company would continue to report earnings and profitability growth and continue to maintain a healthy liquidity position. ICRA also draws comfort from the extensive experience of the promoters of Grentex & Company Private Limited (GCPL), the company's established track record in the wool processing industry and its healthy relationships with suppliers and customers. The ratings derive strength from GCPL's limited dependence on external debt funding, which led to a healthy capital structure and comfortable coverage indicators. The ratings draw comfort from its healthy liquidity position, supported by sizeable cash and bank balances.

However, the ratings remain constrained by its moderate scale of operations, high customer and geographical concentration risks with the top five customers contributing more than 80% to the revenues with sales remaining skewed towards the US. Further, the profitability remains susceptible to the fluctuations in raw material prices, which may exert pressure on its profitability and debt protection metrics.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will continue to benefit from its established track record of operations in the wool processing business. Also, its comfortable capital structure and coverage indicators will support its credit profile.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the wool processing industry – GCPL's directors have an extensive experience spanning over five decades in the wool processing industry. This has enabled the company to establish confidence and recognition in the international market among its customers and suppliers.

Established customer base in the US and Europe catering to carpet manufacturers – Over the years, the company has established a strong relationship with its customers primarily based in the US and Europe. This has helped GCPL get many repeat orders in the past. Besides, GCPL's clientele includes renowned carpet manufacturers in the US and Europe.

Strong capital structure due to limited dependency on external debt along with comfortable liquidity position – The company has limited dependency on external debt funding while its financial requirements were primarily met through internal funds. Against a total net worth of Rs. 56.0 crore as on March 31, 2022, the total debt stood at Rs. 7.5 crore. Its capital structure remained strong, as reflected by a low gearing (TOL/TNW) of 0.4 times as on March 31, 2022, owing to the same. Further, GCPL's liquidity position remained strong, supported by presence of sizeable cash and bank balance as on March 31, 2022.

Credit challenges

Moderate scale of operations – The company’s operating income (OI) improved by 33.8% to Rs. 25.5 crore in FY2022 from Rs. 19.1 crore in FY2021. Further, GCPL has achieved a turnover of ~Rs. 23.0 crore till February 2023, indicating a steady recovery and an improvement in the current year also. However, the scale of operations has remained modest. The ability of the entity to scale up would be a key monitorable.

Vulnerability of margins towards higher inventory level owing to seasonality and long import cycle – The company remains dependent on imports for its raw materials with the fairly long import cycle at 75-90 days. As a result, it has to maintain a minimum inventory for faster turnaround of its export orders. Raw material cost constitutes a significant percentage of the total expenses incurred by GCPL. Therefore, any increase in wool prices and inability to pass on the increase in raw material price could reduce the spread for the company, affecting its revenues and profitability.

High customer and geographical concentration risks – Traditionally, the US remained the key market for the company’s products followed by European countries. GCPL derived 80-90% of the sales revenue from the US and European markets, indicating high geographical concentration risk. Moreover, the top few customers account for ~70-80% of the revenue share, which exposes GCPL to high customer concentration risk.

Susceptibility to foreign exchange risk – The company’s revenues are export dominated while most of its raw materials are imported. GCPL partially offsets the currency risk by the natural hedge created by maintaining its receivables and payables in the same currency.

Liquidity position: Adequate

The company does not have any long-term debt outstanding as on March 31, 2022. It has limited dependence on external debt for its working capital requirements. The company has sanctioned fund-based limits of Rs. 10.00 crore which are barely utilised, indicating availability of enough undrawn limit. Further, its liquidity position remains adequate, supported by presence of cash and liquid investments of Rs. 45.5 crore (which are also used as security for temporary overdraft) as on March 31, 2022.

Rating sensitivities

Positive factors – The ratings of GCPL can be upgraded if the company demonstrates a substantial improvement in its scale of operations and profits, leading to strengthening of the net worth position.

Negative factors – Pressure on the ratings could arise if there is further deterioration in its scale of operations, impacting its profitability. Any weakening of the liquidity position will also trigger a downward revision of the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Indian Textiles Industry – Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GCPL

About the company

Established in September 1980 as a partnership firm (operations commenced from March 1982) and incorporated as a private limited company in 1992, GCPL offers in-house manufactured scoured wool, wool tops including open tops, worsted/semi-worsted yarn and woollen carded yarn. It has manufacturing facilities located at Sarigam in Gujarat and at Ghatkopar in Mumbai, Maharashtra. The factory at Sarigam is owned by GCPL, whereas the factory at Ghatkopar is owned by its parent, Gokalchand Rattanchand Woollen Mills Pvt. Ltd.

Key financial indicators (audited)

GCPL Standalone	FY2021	FY2022
Operating income	19.1	25.5
PAT	3.5	5.1
OPBDIT/OI	11.02%	22.08%
PAT/OI	18.31%	20.00%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	1.1	1.3
Interest coverage (times)	15.0	20.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated	Amount outstanding as of Mar 31, 2022	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
		(Rs. crore)	(Rs. crore)	March 2, 2023	March 8, 2022	October 14, 2021	February 4, 2020	
1	Fund based - PSC/PSCFC/EPC/PCFC	Short term	10.0	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3; Issuer Not Cooperating	[ICRA]A3
2	Non fund based - LC/BG	Short term	2.0	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3; Issuer Not Cooperating	[ICRA]A3
3	Unallocated	Long term/Short term	15.0	-	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3	[ICRA]BBB (Stable)/[ICRA]A3; Issuer Not Cooperating	[ICRA]BBB (Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-based – PSC/PSCFC/EPC/PCFC	Simple
Short-term– Fund Based - LC/BG	Very Simple
Long term/Short -term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PSC/PSCFC/EPC/PCFC	NA	NA	NA	10.0	[ICRA]A3+
NA	LC/BG	NA	NA	NA	2.0	[ICRA]A3+
NA	Unallocated	NA	NA	NA	15.0	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Grentex & Company Private Limited

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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