

April 01, 2022

GTN Industries Limited: Ratings upgraded; long-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based limits	10.65	8.30	[ICRA]A4+; upgraded from [ICRA]A4
Fund-based limits	46.80	49.15	[ICRA]BB+(Positive); upgraded from [ICRA]B+(Stable) and withdrawn [ICRA]A4+; upgraded from [ICRA]A4
Total	57.45	57.45	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings of GTN Industries Limited (GTNIL) primarily considers a significant improvement in performance in FY2022 owing to improved market scenario and contributions levels. Consequently, the company reported revenue of ~Rs. 352.7 crore in 9M FY2022 and an operating margin (OPM) of 15.6% compared to revenue of Rs. 310.2 crore and an OPM of 7.8% in FY2021. This also resulted in an improvement in the debt coverage indicators with an interest coverage of 5.6x in 9M FY2022. Moreover, as the revival plan has been accepted by all the lenders, the entire term loans and working capital loans pertaining to the Medak unit have been paid off, resulting in a significant reduction in debt levels. As a part of this plan, the company had to monetise one unit at Medak and GTN House to its Group company, GTN Engineering (India) Limited. ICRA, however, notes that approval for transfer of GTN House has not been granted by one of the bankers, which is expected to happen shortly post which the entire transaction would be implemented. In FY2023, while the scale of operation will be lower post transfer of the Medak unit, reduced debt levels and better realisation in the near term at least will continue to support the company's debt coverage indicators.

The ratings also derive comfort from GTNIL's established presence in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and export markets, along with the promoters' extensive experience of more than five decades in the cotton spinning industry. Further, the ratings note the favourable track record of funding support from the Group company, GTN Engineering India Limited (GEIL, rated [ICRA]BBB+ (Stable)/A2) to meet the debt obligations of GTNIL. The long-term ratings assigned to the bank facilities of GTNIL have been withdrawn at the request of the company, upon receipt of no objection certificate (NOC) from the bankers, in accordance with ICRA's policy on withdrawal and suspension of credit rating.

The ratings are constrained on account of working capital intensive nature of operation with high inventory requirement, which is likely to keep the liquidity position under check. Post reduction of working capital limits, the cushion remains very low and the track record of utilisation of reduced limits needs to be seen. The utilisation remains high at ~86% of fund-based limits as of February 2022. Also, GTNIL operates in an intensely competitive and commoditised spinning industry. Low product differentiation and a fragmented industry structure translate into limited pricing power and profitability. Thus, its earnings remain exposed to the volatility in cotton prices, which have constrained its contribution levels in the past.

The Positive outlook reflects ICRA's belief that the company would benefit from the revival plan and its financial position should improve over the near-to-medium term.

Key rating drivers and their description

Credit strengths

Significant improvement in performance in FY2022 – The company is expected to report a healthy improvement in its operating income (including the Medak Unit) in FY2022, resulting in a significant improvement in the operating margin and cash accruals. This also resulted in an improvement in debt coverage indicators with an interest coverage of 5.6x in 9M FY2022. In FY2023, while the scale would be down, favourable realisation at least in the near term, will support the operating margins and debt coverage indicators.

Successful implementation of revival plan has resulted in improved ratios – The revival plan along with healthy market conditions has resulted in improved financial ratios of the company. The entire term loans have been paid off and the working capital limits have also been reduced to the extent of the Nagpur unit only.

Established presence in domestic market and extensive promoter experience – The company enjoys established presence in the domestic cotton yarn market and shares long relationship with reputed customers in the domestic and exports markets. Its promoters have extensive experience spanning more than five decades in the cotton spinning industry. Further, the ratings consider the track record of funding support from the Group company, GEIL, to meet debt obligations of GTNIL.

Credit challenges

Working capital intensive nature of operations – The operations of the company are working capital intensive, reflected by NWC/OI of 41% as of December 2021 mainly due to high inventory levels. Moreover, the cushion in limits remains low post reduction of the overall limits. The fund-based limits have been utilised to the extent of 86% as of February 2022. The company's track record of maintaining cushion in limits is yet to be established.

Intense competition limits pricing power – GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and a fragmented industry structure, which results in limited pricing power and profitability. Thus, its earnings remain exposed to the volatility in cotton prices, which have constrained its contribution levels in the past.

Liquidity position: Adequate

The liquidity profile of GTNIL takes comfort from healthy cash accruals in the current fiscal and significant debt reduction, resulting in nil repayment obligations, going forward. However, the working capital utilisation is on the higher side at present with limited cushion available and low cash balance of around Rs. 2-3 crore as of December 2021.

Rating sensitivities

Positive factors – ICRA could upgrade GTN's rating if the company demonstrates an improvement in its liquidity position by effectively managing working capital requirements while maintaining healthy profitability and debt coverage indicators. An interest coverage above 3 times on a sustained basis could lead to an upgrade.

Negative factors – Pressure on the rating may arise if there is a deterioration in the operational performance of the company and/or any weakening of linkages with the promoter group. An interest coverage below 2 times on a sustained basis could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating Rating Methodology for Entities in the Textile Industry - Spinning Policy on Withdrawal of Credit Ratings
Parent/Group Support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]BBB+ (Stable)/A2) and GTNIL's promoters would be willing to extend financial support to GTNIL, should there be a need. There is a track record of funding support from the promoter group in the past
Consolidation/Standalone	Standalone

About the company

GTN Industries Limited (GTNIL) manufactures and trades in cotton yarn and is a part of the established GTN Group, which has diversified business interests ranging from textiles to engineering. GTN was founded by Late M. L. Patodia and at present, it is managed by Mr. M. K. Patodia. The company's shares are listed on the Indian bourses. GTNIL has an installed capacity of 92,400 spindles across its two spinning units at Medak, Telangana and Nagpur, Maharashtra. However, post monetisation of the Medak unit, the capacity would be close to 42,000 spindles.

Key financial indicators (audited)

GTNIL	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	344.2	310.2	352.7
PAT (Rs. crore)	-5.5	-6.2	14.0
OPBDIT/OI (%)	5.8%	7.8%	15.6%
PAT/OI (%)	-1.6%	-2.0%	4.0%
Total Outside Liabilities/Tangible Net Worth (times)	4.3	4.8	4.0
Total Debt/OPBDIT (times)	8.7	7.0	1.0
Interest Coverage (times)	0.8	1.0	5.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument			Amount Outstanding as of Mar 31,2021 (Rs. crore)	Current Rating (FY2023)	Chronology of Rating History for the past 3 years			
				Date & Rating in	Date & Rating in FY 2022	Date & Rating in FY2021	Date & Rating in FY2020	
				April 01,2022	August 06,2021	September 01,2020	November 15,2019	May 14,2019
1	Term Loan	Long term	0	-	-	[ICRA]B-(Stable)	[ICRA]B(Stable)	[ICRA]C
2	Fund-based limits	Short term	0	-	-	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non-fund Based limits	Short term	8.30	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Fund based limits-LT/ST	Long term/Short term	49.15	-	[ICRA]BB+(Positive) withdrawn/[ICRA]A4+	[ICRA]B+(Stable)/[ICRA]A4	-	-
5	Unallocated limits	Long term/Short term	-	-	-	-	[ICRA]B(Stable)/[ICRA]A4	[ICRA]C/[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-fund Based limits	Very Simple
Fund based limits	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Non-fund Based limits	-	-	-	8.30	[ICRA]A4+
Fund based limits	-	-	-	49.15	[ICRA]BB+(Positive) withdrawn/[ICRA]A4+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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