October 28, 2022

GTN Engineering India Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	145.30	145.30	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Long-term term loan	58.04	58.04	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Short-term fund-based	30	30.0	[ICRA]A2+; upgraded from [ICRA]A2
Short-term non-fund based	24.0	24.0	[ICRA]A2+; upgraded from [ICRA]A2
Unallocated	1.23	1.23	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Total	**258.57**	**258.57**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action primarily factors in the significant improvement in the financial performance of GTN Engineering India Limited (GEIL) in FY2022 and ICRA's expectation that the trend is likely to continue, going forward. GEIL's revenue grew by 25% in FY2022 over FY2021 owing to the better performance of the textile division. The operating profit margin (OPM) also improved to 14.9% in FY2022 compared with 8.9% in FY2021 owing to the higher profitability of the textile division. In the current fiscal, the revenue growth is expected to remain healthy at 40-45% on account of the addition of the Medak unit purchased from group company, GTN Industries Limited. The margins will show some moderation on account of reduced contribution margins from the textile unit, but are expected to remain healthy owing to the improved scale and margins in the engineering division. The order book of the engineering division remains comfortable at Rs 140-150 crore with TechnipFMC Plc[1], rated Baa1 (Stable) by Moody's, as its major customer. The financial profile of the company remains comfortable with healthy net worth of more than Rs. 400 crore and adequate coverage indicators with interest coverage of 7.5 times, total debt/OPBITDA of 2.7 times and NCA/total debt of 31% in FY2022. Further, the liquidity profile remains healthy with cash and equivalents close to Rs. 50 crore as on date, despite the acquisition of GIL's assets.

The ratings derive comfort from the healthy performance of the engineering division over the years. Despite weakening to an extent in FY2020 and FY2021 because of lower order flow, the engineering division continues to generate healthy profitability and accruals for GEIL. The ratings note the established relationship with TechnipFMC for the supply of API valves, GV assembly, etc, under a long-term manufacturing agreement valid till March 2024. The absence of any major debt-funded capital expenditure in the medium term is expected to further improve the company's credit metrics.

The ratings continue to be constrained by high client concentration risk and dependence on a single client in the engineering division, TechnipFMC, which contributed to ~36% of the revenues in FY2022. The company is making efforts to diversify the customer base in the engineering division by foraying into precision engineering. However, given the long-drawn approval process and slow ramp-up of new orders, these efforts are likely to translate into a meaningful order book only over the medium term. The ratings are constrained by the high working capital intensity, with NWC/OI of 44%, due to high levels of inventory to factor in the lead time for imported bought-out components for the engineering division and 45-60 days' credit

[1] *One of the world's largest oilfield services providers with a leading market position in the subsea business*

extended to TechnipFMC. Moreover, investments in Group companies and real estate assets have suppressed the return on capital employed and remain a drag on GEIL's balance sheet.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that GEIL will continue to benefit from the established relationship with TechnipFMC. The company is expected to report an improved performance in FY2023 on the back of higher revenues from the textile division and increased orders from the engineering division.

Key rating drivers and their description

Credit strengths

Improved performance of engineering division – The performance of the engineering division has improved in the current fiscal on the back of increased order inflow. The division has reported a revenue of around Rs 136 crore till September 2022 and expects to achieve more than Rs 300 crore for the full year. Moreover, the textile division is expected to achieve a healthy increase in revenues in the current fiscal following the purchase of the Medak unit from a group company.

Established relationship with TechnipFMC – GEIL has established relationship with TechnipFMC for the supply of API valves, GV assembly, etc, under a long-term manufacturing agreement valid till March 2024. The outstanding order book for the engineering division stood at Rs. 140 crore as of September 2022, and the segment is expected to report revenue growth after a subdued performance in the last two years.

Comfortable financial risk profile – GEIL's financial risk profile is comfortable, with TOL/TNW of 0.7 times as on March 31, 2022 and adequate coverage indicators with interest coverage of 7.5 times, total debt/OPBITDA of 2.7 times and NCA/total debt of 31% in FY2022. The company's liquidity position is adequate, with unencumbered liquid surplus of Rs. 50 crore as of September 2022 and healthy cushion provided by undrawn working capital limits. The absence of any major debt-funded capital expenditure in the medium term is expected to further improve its credit metrics.

Credit challenges

Decline in contribution in textile division – GEIL's operating margins in the textile division are expected to decline in the current fiscal owing to the increase in raw material prices, mainly cotton. This might result in a decline in operating margins for the company. However, the same is likely to be offset by the higher margins expected in the engineering division.

High customer concentration in engineering division – GEIL's revenues are highly dependent on orders from its sole customer, TechnipFMC, which accounted for ~36% of its revenues in FY2022. The revenues from this customer declined during the past two years on account of the pandemic. However, established relationship with the customer and the validity of the existing agreement till December 2022 ensure repeat orders for the company. Despite its efforts to diversify into other segments, the concentration will continue to be high in the medium term.

High working capital intensity – The company has a high working capital intensity, with NWC/OI of 44% in FY2022 due to high levels of inventory to factor in the lead time for the imported bought-out components for the engineering division. GEIL extends 45-60 days of credit period to TechnipFMC. Moreover, GEIL's investments in Group companies and real estate assets were at Rs. 29 crore as of March 2022. The return on capital employed remains suppressed and is a drag on GEIL's balance sheet.

Exposure to foreign currency fluctuations – The company is exposed to foreign currency fluctuations as it undertakes both exports and imports. However, GEIL has not faced any major gains or losses in the last few years on account of its hedging mechanism.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash balance of Rs. 50 crore as of September 2022 and comfortable cushion available in the sanctioned working capital limits. The average working capital limit utilisation stood at ~66% (against sanctioned limits) in the past 15 months. The repayment obligation for FY2023 is around Rs. 15-16 crore, which can be comfortably met through estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade GEIL's ratings if there is a sustained improvement in scale and profitability, going forward. The efficient management of working capital strengthening its liquidity position could also lead to a positive rating action.

Negative factors – Pressure on GEIL's ratings could arise if the revenues and profitability decline significantly. Moreover, a stretch in the working capital cycle or any major debt-funded capex weakening its liquidity position could be a negative trigger. Total debt/OPBDITA higher than 2.3 times, on a sustained basis, may also prompt a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textile Industry - Spinning
Parent/Group Support	None
Consolidation/Standalone	Standalone

About the company

GTN Engineering India Limited (erstwhile GTN Exports Ltd.; renamed in March 2008) was incorporated in 1990 and is promoted by Mr. M. K. Patodia and family, who have an established presence in the textile business through GTN Industries Limited (rated, [ICRA]A4+).
In FY2013, some of the textile units of the GTN Group were amalgamated with GEIL. The operations now comprise the engineering (36% revenue contribution in FY2022) and the textile divisions (64% revenue contribution in FY2022). The textile division comprises two spinning units (capacity of around 85,000 spindles cotton yarn) and a garment manufacturing unit (27 lakh garments and 54 lakh pairs socks per year at Imperial Garments).

Key financial indicators

GEIL	FY2021(A)	FY2022(P)
Operating income (Rs. crore)	425.0	529.4
PAT (Rs. crore)	26.6	43.3
OPBDIT/OI (%)	8.9%	14.9%
PAT/OI (%)	6.3%	8.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	3.9	2.7
Interest coverage (times)	3.2	7.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited,P-Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2022 (Rs. crore)	Date & rating in	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					October 28,2022	September 29,2021	October 05,2020	December 20,2019
1	Long-term Fund-based	Long term	145.30	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)
2	Long-Term Term Loan	Long term	58.04	48.06	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)
3	Long-term Non-fund Based	Long term	0	-	-	-	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)
4	Short-term Fund-based	Short term	30.0	-	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A2+
5	Short-term Non-fund based	Short term	24.0	-	[ICRA]A2+	[ICRA]A2	[ICRA]A3+	[ICRA]A2+
6	Unallocated	Long term	1.23	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based	Simple
Long-Term Term Loan	Simple
Short-term Fund-based	Simple
Short-term Non-fund based	Very simple
Unallocated	Not applicable

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based	-	-	-	145.30	**[ICRA]A-(Stable)**
NA	Term Loans	Dec 2015	-	Dec 2025	58.04	**[ICRA]A-(Stable)**
NA	Short-term Fund-based	-	-	-	30.0	**[ICRA]A2+**
NA	Short-term Non-fund based	-	-	-	24.0	**[ICRA]A2+**
NA	Unallocated	-	-	-	1.23	**[ICRA]A-(Stable)**

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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