

November 15, 2022

GTN Industries Limited: Long-term rating of [ICRA]BBB- (Stable) assigned; short-term rating upgraded to [ICRA]A3; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits-LT/ST	-	56.15	[ICRA]BBB-(Stable); assigned/[ICRA]A3; upgraded from [ICRA]A4+
Non-fund Based limits-ST	8.30	8.55	[ICRA]A3; upgraded from [ICRA]A4+
Fund-based limits-ST	49.15	-	-
Total	57.45	64.70	

*Instrument details are provided in Annexure-1

Rationale

The revision in the ratings of GTN Industries Limited (GTNIL) positively factors in the exit of company from Corporate Debt Restructuring (CDR) and closure of term loans as per revival plan resulting in an improvement in debt coverage indicators of the entity. The ratings also take into account the upgrade in the credit rating of Group company, GTN Engineering India Limited (GEIL; upgraded to [ICRA]A- (Stable)/[ICRA]A2+ in October 2022) and the favourable track record of funding support received from GEIL. Further, the performance in the current fiscal is expected to remain comfortable with an improvement in the financial position owing to nil term debt and reduced working capital borrowings required only for the Nagpur unit. However, the margins are expected to moderate owing to higher cotton prices. Going forward, while the absolute scale and profits will moderate with only Nagpur unit in operation, the debt coverage indicators are expected to remain comfortable. The ratings continue to 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.

The ratings remain constrained on account of working capital-intensive nature of operation with high inventory requirement, which is likely to keep the liquidity position under check. 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 Stable outlook reflects ICRA's expectation that GTNIL will continue to benefit from its established track record of operations and the financial flexibility it enjoys as part of GTN Group.

Key rating drivers and their description

Credit strengths

Exit from CDR and successful implementation of revival plan, resulting in better coverage ratios – The revival plan has been successfully implemented with company closing the underlying CDR loans and also paid the amount under Right of Recompense (RoR), resulting in exit from CDR. Further, the reduction of debt has resulted in improvement in debt coverage indicators.

Comfortable financial performance expected in FY2023; while the performance will moderate in FY2024 – The company is expected to report a healthy operating income (including one-month sales from the Medak Unit) and moderate profitability in FY2023. The gearing and debt-coverage indicators are expected to remain comfortable with reduction in debt level. However, with sale of Medak unit, the operating income is expected to moderate in FY2024. Further, the profitability is also expected to remain moderate owing to volatile market conditions.

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

Profitability remains vulnerable to fluctuation in raw material prices – Cotton constitutes a major portion of the total cost of production. Thus, it remains exposed to fluctuation in the prices of cotton owing to various agro-climatic reasons and Government policies (through minimum support price). The same was reflected in the current year, with a moderation in profits owing to higher cotton prices. The cotton prices are expected to moderate with the arrival of new crop in second half of the year.

Working capital intensive nature of operations – The operations of the company are working capital intensive, reflected by NWC/OI of ~20% as of September 2022 mainly due to high inventory levels. Moreover, the cushion in limits remains low post reduction of the overall limits.

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.

Liquidity position: Adequate

The company's liquidity is expected to remain **adequate** with moderate utilization of working capital limits, healthy cash accruals, nil repayment obligations and limited capital expenditure plans in the near term, providing comfort to the liquidity position.

Rating sensitivities

Positive factors – The ratings can be upgraded if there is a healthy and sustained increase in the company's scale of operations and profits, while maintaining comfortable liquidity position and debt protection metrics. Specific metrics that could trigger an upgrade include interest coverage above 3.5 times on a sustained basis.

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 2.8 times on a sustained basis could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textiles - Spinning Rating approach – Implicit support from Parent or Group
Parent/Group Support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]A- (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
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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 41,856 spindles with its unit located in Nagpur, Maharashtra.

Key financial indicators

GTNIL	FY2021 (Audited)	FY2022 (Audited)	6M FY2023 (Unaudited)
Operating Income (Rs. crore)	310.2	480.9	227.5
PAT (Rs. crore)	-6.2	34.7	19.1
OPBDIT/OI (%)	7.8%	17.5%	14.2%
PAT/OI (%)	-2.0%	7.2%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	4.9	3.0	0.9
Total Debt/OPBDIT (times)	7.1	1.1	0.8
Interest Coverage (times)	1.0	7.8	6.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Current Rating (FY2023)		Chronology of Rating History for the past 3 years				
				Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
				Nov 15, 2022	Apr 01, 2022	Aug 06, 2021	Sep 01, 2020	Nov 15, 2019	May 14, 2019	
1	Term Loan	Long term	-	-	-	-	-	[ICRA]B-(Stable)	[ICRA]B(Stable)	[ICRA]C
2	Fund-based limits	Short term	-	-	-	-	-	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non-fund Based limits	Short term	8.55		[ICRA]A3	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Fund based limits-LT/ST	Long term/Short term	56.15		[ICRA]BBB-(Stable)/[ICRA]A3	[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: [Click Here](#)

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	-	-	-	8.55	[ICRA]A3
Fund based limits	-	-	-	56.15	[ICRA]BBB-(Stable)/[ICRA]A3

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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