April 24, 2023

GTN Engineering India Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based Cash Credit	145.30	192.30	[ICRA]A-(Stable); reaffirmed and assigned for enhanced amount
Long-term term loan	58.04	58.04	[ICRA]A-(Stable); reaffirmed
Short-term fund-based	30.0	30.0	[ICRA]A2+; reaffirmed
Short-term non-fund based	24.0	24.0	[ICRA]A2+; reaffirmed
Unallocated	1.23	1.23	[ICRA]A-(Stable); reaffirmed
Total	**258.57**	**305.57**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has consolidated the financials of GTN Engineering India Limited and its Group company, GTN Industries Ltd.

While reaffirming the ratings, ICRA takes into account the estimated healthy growth in revenues in FY2023 owing to an increase in both textile and engineering divisions, however, the operating margins are estimated to moderate at ~10% on account of reduced contribution margins in the textile unit amid higher cotton prices and subdued demand, though healthy performance in the engineering division offset the impact to an extent. Going forward, with the correction in cotton prices, the textile division's performance is expected to improve. The engineering division is expected to continue to report a healthy growth in FY2024, as reflected by a healthy order book position of around Rs. 200 crore as of March 2023. The financial profile of the company remains comfortable with healthy debt-coverage indicators with an interest coverage of 8.5 times, total debt/OPBITDA of 1.5 times and NCA/total debt of 46.8% in FY2022. Further, the liquidity profile remains healthy with cash and equivalents close to Rs. 64 crore as on December 31, 2022, on a consolidated basis.

The ratings continue to take comfort from GEIL's established relationship with TechnipFMC for the supply of API valves, GV assembly etc, for the past 18 years. The recent General Terms and Conditions agreement effective from April 1, 2023 for next 10 years, further provides revenue visibility in the medium term. The absence of any major debt-funded capital expenditure in the medium term is expected to further improve the company's credit metrics.

However, the ratings continue to be constrained by high client concentration risk and dependence on a single client in the engineering division, TechnipFMC, which contributed ~36% to the total 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 46%, 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 extended to TechnipFMC. Further, its earnings remain exposed to the volatility in raw material prices and foreign exchange rate fluctuations, which can impact on the company's contribution level.

The Stable outlook on [ICRA]A- rating reflects ICRA's opinion that GEIL will continue to benefit from the healthy orders from TechnipFMC, thus resulting in an improved performance in FY2024.

Key rating drivers and their description

Credit strengths

Improved performance of engineering division – The performance of the engineering division improved in FY2023 on the back of increased order inflow. The division has reported revenue of around Rs. 240 crore till December 2022 and is estimated to achieve around Rs. 345-350 crore in FY2023. The engineering division has been the revenue and margin drivers in Q4 FY2023 and is expected to perform well in FY2024 with healthy order book of around Rs. 200 crore as of March 2023.

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.

Comfortable financial risk profile – GEIL's financial risk profile, on a consolidated basis, remained comfortable, with TOL/TNW of 0.9 times as on March 31, 2022 and adequate coverage indicators with an interest coverage of 8.5 times, total debt/OPBITDA of 1.5 times and NCA/total debt of 46.8% in FY2022. The company's profitability is expected to moderate in FY2023 (OPM of around 9-10%) compared to FY2022 (OPM of 17.5%) with negligible profits and inventory losses in the textile division in FY2023 However, the margins and revenues are expected to improve in FY2024 with correction in cotton prices and a healthy order book in the engineering division.

Credit challenges

Decline in contribution in textile division – GEIL's operating margins in the textile division are expected to decline in FY2023 owing to an increase in raw material prices, mainly cotton, and weak demand scenario. This will result in a decline in the company's operating margins. However, the same is likely to be offset by the higher margins expected in the engineering division. The company's performance is expected to improve in FY2024 with correction in cotton prices and benefit of rupee depreciation.

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 total revenues in FY2022. The revenues from this customer declined during the past two years on account of the pandemic. However, the engineering division's performance improved in FY2023 and is expected to continue to report a healthy growth in FY2024, as reflected by a strong order book position of around Rs. 200 crore as of March 2023. Further, established relationship with the customer ensures 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 46% in FY2022, on a consolidated basis, due to high level 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.

Exposure to foreign currency and raw material price fluctuations – The company is exposed to foreign currency fluctuations as it undertakes both exports and imports. Further, cotton constitutes the major portion of the total cost of production in the textile division. 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 FY2023, with a moderation in profits owing to higher cotton prices. The cotton prices are expected to moderate in FY2024.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash and bank balance of Rs. 64 crore on a consolidated basis as of December 2022 and a comfortable cushion available in the sanctioned working capital limits. The utilisation of the average working capital limit stood at ~73% (against the sanctioned limits) in the past 12 months ending in February 2023. The repayment obligation in FY2024 stands at around Rs. 15 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 Rating approach – Consolidation
Parent/Group Support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of GTN Engineering India Limited and its Group company, GTN Industries Ltd. Details are given in Annexure-2.

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 members, who have an established presence in the textile business through GTN Industries Limited (rated, [ICRA]BBB-(Stable)/[ICRA]A3).

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 (Consolidated)*

	FY2021(A)	FY2022(A)	FY2021(A)	FY2022(A)
	Standalone		Consolidated (GEIL+GTN)	
Operating income (Rs. crore)	425.0	529.4	685.1	936.7
PAT (Rs. crore)	26.6	45.0	20.4	79.7
OPBDIT/OI (%)	8.9%	15.1%	9.1%	17.5%
PAT/OI (%)	6.3%	8.5%	3.0%	8.5%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	1.0	0.9
Total debt/OPBDITA (times)	3.9	2.7	4.2	1.5
Interest coverage (times)	3.2	7.6	1.8	8.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; A-Audited,P-Provisional; *Consolidation of GTN engineering industries Limited and GTN Industries Limited done by ICRA based on elimination of important inter-group transactions based on public disclosures*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					April 24, 2023	November 15,2022	October 28,2022	September 29,2021	October 05,2020
1	**Long-term Fund-based**	Long term	192.30	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+(Stable)**	**[ICRA]BBB(Stable)**
2	**Long-Term Term Loan**	Long term	58.04	38.6	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+(Stable)**	**[ICRA]BBB(Stable)**
3	**Long-term Non-fund Based**	Long term	0.0	-	-	-	-	-	**[ICRA]BBB(Stable)**
4	**Short-term Fund-based**	Short term	30.0	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A3+**
5	**Short-term Non-fund based**	Short term	24.0	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A3+**
6	**Unallocated**	Long term	1.23	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (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: Click Here

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	-	-	-	192.30	[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

Company Name	Ownership	Consolidation Approach
GTN Industries Limited	49.51%	Full Consolidation

Source: *Company*

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About ICRA Limited:

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