September 01, 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	192.30	265.16	[ICRA]A-(Stable); reaffirmed/assigned for enhanced amount
Long-term fund-based term loan	58.04	56.87	[ICRA]A-(Stable); reaffirmed
Short-term fund-based CC	30.00	0.00	-
Short-term non-fund based Others	24.00	36.60	[ICRA]A2+; reaffirmed/assigned for enhanced amount
Long-term Unallocated	1.23	0.00	-
Total	**305.57**	**358.63**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has consolidated the financials of GTN Engineering India Limited and its Group company, GTN Industries Ltd (referred to as the GTN Group/Group).

The ratings reaffirmation of the GTN Group primarily considers its established operational track record in the engineering and the textile businesses, spanning more than five decades. In the engineering division, the Group has established relationships with TechnipFMC for supplying API valves, GV assembly etc, for the past 18 years. In FY2023, the performance of the engineering division remained healthy with an annual revenue growth of 81% and an operating margin of ~20%. The agreement with TechnipFMC has been recently renewed w.e.f. April 1, 2023 for the next 10 years, which provides revenue visibility in the medium term. The performance of the textile business, however, remained weaker than anticipated amid higher cotton prices and weak demand in the last fiscal. In FY2024, while the spread between yarn prices and cotton prices continued to remain weak, the same is expected to improve with the commencement of the cotton season in H2 FY2024. Also, the healthy order book in the engineering division is likely to result in strong revenue along with high operating margins for the division, which would offset the subdued performance of the textile division, to an extent. In addition, closure of a few loss-making division in FY2022 and FY2023 will also support the operating profits to an extent. The debt protection metrics moderated in FY2023 but continued to remain comfortable. Also, with the expected improvement in the operating profits in FY2024, the debt metrics would remain comfortable. The liquidity position remains adequate with cash and liquid investment of ~Rs. 43 crore in March 2023 and comfortable cushion available in the sanctioned working capital limits.

However, the ratings continue to be constrained by high dependence on a single client in the engineering division, TechnipFMC, which contributed around 35% to the total revenues and 94% to the engineering division's revenue in FY2023. 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 also constrained by the high working capital intensity, with NWC/OI of 38.7% due to high inventory level to factor in the lead time for imported bought-out components for the engineering division and 45-60 days of credit extended to TechnipFMC. Further, its earnings remain exposed to the volatility in raw material prices and foreign exchange rate fluctuations, which can impact 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, 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 on the back of increased order inflow and contributed the major portion towards the profitability in FY2023. The division has reported a healthy revenue growth of ~81% at Rs. 343 crore in FY2023 and is estimated to achieve around Rs. 380-400 crore in FY2024. The engineering division has been the revenue and the margin driver in FY2023 and is expected to perform well in FY2024 with a healthy order book of around Rs. 156 crore as of August 2023.

Established relationship with TechnipFMC – GEIL has established relationship with TechnipFMC for supplying API valves, GV assembly etc, under a long-term manufacturing agreement (valid till March 2033), which provides revenue visibility.

Extensive experience of promoter – The promoters have extensive experience, and the company has an established track record in the engineering and textile business spanning more than five decades. Over the period, the GTN Group has developed established relationships with reputed customers in the domestic and export markets, entailing repeat business.

Credit challenges

Moderate performance in FY2023; operating losses in textile division – On a consolidated basis, the Group's revenues rose 2% to Rs. 958.6 crore in FY2023 and its operating profits fell to 9.6% in FY2023 from 17.5% in FY2022 owing to subdued performance of the textile division. In FY2024, while the spread between yarn prices and cotton prices continue to remain weak, the same is expected to improve with the commencement of the cotton season in H2 FY2024. Also, the healthy order book in the engineering division is likely to result in strong revenue along with high operating margins for the division, which would offset the subdued performance of the textile division, to an extent.

The debt protection metrics moderated in FY2023, with an interest coverage of 3.7 times and Net Debt/OPBDITA of 2.2 times in FY2023 compared to 8.5 times and 1.3 times, respectively in FY2022. However, with the likely increase in operating profits, the same is expected to improve in FY2024.

High working capital intensity – The Group has a high working capital intensity, with NWC/OI of 38.7% in FY2023, 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 and high cotton inventory levels at year ends.

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 and losses resulting from forex fluctuation.

Liquidity position: Adequate

The company's liquidity position is adequate, with free cash and liquid investment of Rs. 43 crore on a consolidated basis as of March 2023 and a comfortable cushion available in the sanctioned working capital limits. The repayment obligation in FY2024 stands at around Rs. 11 crore, which is likely to be comfortably met through the 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. 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. Net debt/OPBDITA higher than 2.3 times, on a sustained basis, may also prompt ratings 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 also 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 (40% revenue contribution in FY2023) and the textile divisions (60% revenue contribution in FY2023). The textile division comprises two spinning units (with a capacity of 86,192 spindles cotton yarn) and a garment manufacturing unit (with a capacity of 12 lakh garments and 54 lakh pairs of socks per year at Imperial Garments).

Key financial indicators (Consolidated)*

	FY2022(A)	FY2023(P)	FY2022(A)	FY2023(P)
	Standalone (GEIL)		Consolidated (GEIL+GTN)	
Operating income (Rs. crore)	529.4	876.2	936.7	958.6
PAT (Rs. crore)	45.0	0.6	79.7	16.2
OPBDIT/OI (%)	15.1%	7.0%	17.5%	9.6%
PAT/OI (%)	8.5%	0.1%	8.5%	1.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.9	0.9	0.8
Total debt/OPBDITA (times)	2.7	3.8	1.5	2.7
Interest coverage (times)	7.6	3.2	8.5	3.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; 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 March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Sep 1, 2023	April 24, 2023	November 15,2022	October 28,2022	September 29,2021	October 05,2020
1	Fund-based Cash Credit	Long term	265.16	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)
2	Fund-based term loan	Long term	56.87	22.5	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)
3	Non-fund based	Long term	0.00	-	-	-	-	-	-	[ICRA]BBB(Stable)
4	Fund-based CC	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
5	Non-fund-based Others	Short term	36.60	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A3+
6	Unallocated	Long term	0.00	-	-	[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 Cash Credit	Simple
Long-Term Fund-based Term Loan	Simple
Short-term Non-fund based Others	Very 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 are available on ICRA's website: Click Here

Annexure I: 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 Cash Credit	-	-	-	265.16	**[ICRA]A-(Stable)**
NA	Long-Term Fund-based Term Loan	Dec 2015	-	Dec 2025	56.87	**[ICRA]A-(Stable)**
NA	Short-term Non-fund based Others	-	-	-	36.60	**[ICRA]A2+**

Source: Company

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

Annexure II: 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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