

June 18, 2024^(Revised)

Grentex & Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Fund based limits	10.00	10.00	[ICRA]A3+; reaffirmed
Short term – Non-Fund based limits	2.00	2.00	[ICRA]A3+; reaffirmed
Long term/Short term – Unallocated limits	15.00	15.00	[ICRA]BBB(Stable) / [ICRA]A3+; reaffirmed
Total	27.00	27.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation of Grentex and Company Private Limited (GCPL) considers ICRA's expectations that GCPL will continue to improve its overall financial performance while maintaining a healthy liquidity position, supported by cash and liquid investments. The ratings also consider the extensive experience of the promoters, the company's established track record in the wool processing industry and healthy relationships with its customers and suppliers. The ratings also derive comfort from GCPL's limited dependency on external borrowings, resulting in a healthy capital structure with comfortable coverage indicators.

The ratings, however, remain constrained by GCPL's moderate scale of operations and exposure to high geographical and customer concentration risks. Its top five customers contributed ~94% to its revenues in FY2024, while the major portion of its sales was made in the US region and a new region added recently. ICRA notes that the profitability of the company remains exposed to forex risks, although the import of raw materials provides a natural hedge to a certain extent. GCPL also remains susceptible to the fluctuations in raw material prices, which may exert pressure on its profitability and debt protection metrics.

The Stable outlook on the long-term rating reflects ICRA's expectation that GCPL will record a moderate improvement in revenues and profitability. Further, the outlook underlines ICRA's expectation that the incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with its existing ratings.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the wool processing industry – GCPL's directors have an extensive experience spanning over five decades in the wool processing industry, enabling the company to establish long relationships with its clients and suppliers in the international market.

Established customer base in the US and a new region catering to carpet manufacturers – Over the years, the company has established a strong relationship with carpet manufacturers primarily based in the US and the EU region. However, over the last two fiscals, there has been a decline in revenues generated from the US and the EU region due to macro-economic factors. Nonetheless, in FY2024, GCPL has diversified its customer base to a new region. At present, the major portion of the company's revenues are derived from the US and the new region added recently.

Strong capital structure due to limited dependency on external debt and comfortable liquidity position – GCPL has limited dependency on external debt funding as its financial requirements are primarily met through internal funds. The company's total debt stood at Rs. 6.8 crore against its total net worth of Rs. 59.0 crore as on March 31, 2023. GCPL's capital structure continues to remain strong, as reflected by a low gearing (TOL/TNW) of 0.3 times as on March 31, 2023, owing to limited dependency on external debt. The liquidity position of the company remains strong, supported by the presence of sizeable cash and liquid investments. This trend is expected to continue in the near-to-medium term.

Credit challenges

Moderate scale of operations – The company's operating income (OI) improved by 21.9% to Rs. 33.3 crore (provisional) in FY2024 from Rs. 27.3 crore in FY2023, driven by orders received from its new customer. However, the scale of operations has remained modest. The ability of the entity to scale up its business would be a key monitorable.

Vulnerability of margins towards higher inventory level owing to seasonality and long import cycle – GCPL relies on imports for procurement of its raw material requirements, with a relatively longer import cycle ranging from 90 to 120 days. As a result, GCPL must maintain a minimum inventory towards facilitating raw material availability for processing its export orders. Raw material cost constitutes a significant portion of the total expenses incurred by GCPL. Therefore, any rise in wool prices and the company's inability to pass on the increase in raw material cost to its customers could adversely impact GCPL's profitability.

High customer and geographical concentration risks – Traditionally, the US remained the key market for the company's products, followed by European countries. GCPL has historically derived 70-80% of the revenues from the US and the EU region, indicating high geographical concentration risk. However, in FY2024, there was a decline in revenues generated from the US and EU markets due to macro-economic conditions. Nevertheless, GCPL has expanded its market by adding dyed yarn to its product portfolio. Moreover, the top five customers account for 90-95% of the revenue share, which exposes GCPL to high customer concentration risk.

Susceptibility to foreign exchange risk – The company's revenues are export dominated while majority of its raw materials are imported. GCPL partially offsets the currency risk by the natural hedge created by maintaining its receivables and payables in the same currency.

Liquidity position: Adequate

The liquidity profile of the company is expected to remain adequate over a near-to-medium term, with adequate cash flow from operations and healthy cash and liquid investments of Rs. 35.6 crore as of March 31, 2023. Also, undrawn working capital limits of ~Rs. 10.0 crore as on March 31, 2024, provides comfort. Against these sources of cash, GCPL has capex planned in FY2025, which would be met through internal accruals. There is no debt repayment obligation.

Rating sensitivities

Positive factors – The ratings of GCPL can be upgraded if the company demonstrates a substantial improvement in its scale of operations and profits, strengthening its net worth position.

Negative factors – Pressure on the company's ratings could arise if there is a deterioration in its scale, impacting the profitability. Any higher-than-anticipated capital expenditure or cash outflow, weakening its liquidity profile, will also trigger a downward revision in ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Spinning
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GCPL

About the company

Established in September 1980 as a partnership firm (operations commenced from March 1982) and incorporated as a private limited company in 1992, GCPL offers in-house manufactured scoured wool, wool tops including open tops, worsted/semi-worsted yarn, dyed yarn, and woollen carded yarn. The manufacturing facility is situated at Sarigam in Gujarat and Ghatkopar in Mumbai, Maharashtra. The factory at Sarigam is owned by GCPL, whereas the factory at Ghatkopar is owned by its parent, Gokalchand Rattan Chand Woollen Mills Pvt. Ltd.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income (Rs. crore)	25.5	27.3	33.3
PAT (Rs. crore)	5.1	5.0	-
OPBDIT/OI	22.1%	20.6%	-
PAT/OI	20.0%	18.3%	-
Total outside liabilities/Tangible net worth (times)	0.4	0.3	-
Total debt/OPBDIT (times)	1.3	1.2	-
Interest coverage (times)	20.2	11.7	-

Source: Company, ICRA Research; *Provisional number

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				June 18, 2024	-	March 2, 2023	March 8, 2022	October 14, 2021
1 Fund based - PSC/PSCFC/EPC / PCFC	Short term	10.0	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3; Issuer Not Cooperating
2 Non fund based - LC/BG	Short term	2.0	-	[ICRA]A3+	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3; Issuer Not Cooperating
3 Unallocated	Long term/ Short term	15.0	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/[ICRA]A3; Issuer Not Cooperating

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-based – PSC/PSCFC/EPC/PCFC	Simple
Short-term Non fund based - LC/BG	Very Simple
Long term/Short -term – Unallocated	NA

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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	PSC/PSCFC/EPC/PCFC	NA	NA	NA	10.0	[ICRA]A3+
NA	LC/BG	NA	NA	NA	2.0	[ICRA]A3+
NA	Unallocated	NA	NA	NA	15.0	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

CORRIGENDUM

Document dated June 18, 2024, has been corrected with revision as detailed below:

- In Pg 4, the complexity indicator for Short-term Non fund based LC/BG limit has been revised.

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