

December 11, 2024

GTN Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund based	61.00	54.00	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed
Long-term/ Short -term – Unallocated	3.70	0.00	-
Total	64.70	54.00	

*Instrument details are provided in Annexure-I

Rationale

While reaffirming the ratings, ICRA continues to take comfort from GTN Industries Limited's (GTNIL) 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. Further, the ratings factor in ICRA's expectation that GTN Engineering (India) Limited {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 has been a track record of funding support from GEIL in the past. In FY2025, GTNIL's financial performance is expected to remain weak owing to wide fluctuations in raw material prices and weak demand, impacting the entity's realisation. However, the demand revival in the domestic market and better cotton prices in H2 FY2025 would provide some comfort to the company's overall performance. GTNIL witnessed net losses in H1 FY2025, though positive at operating levels, mainly due to subdued demand in both domestic as well as in export markets. However, with slight improvement expected in H2 FY2025 owing to raw material (cotton) sourcing by the company in September 2024 at a favourable price, the company expects to report modest operating profit for the full fiscal. Nonetheless, GTNIL's overall financial profile continues to remain comfortable, led by a conservative capital structure with low external debt and a stable liquidity position owing to cushion in the fund-based limits.

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 constrained its contribution levels in the past.

The Stable outlook reflects ICRA's expectation that GTNIL's cash flows are expected to remain comfortable relative to its debt service obligations and the company will continue to benefit from being a part of the GTN Group.

Key rating drivers and their description

Credit strengths

Established presence in domestic market and extensive experience of promoters – The company enjoys an established presence in the domestic cotton yarn market and shares long relationships with reputed customers in the domestic and export 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 GTNIL's debt obligations.

Low reliance on external debt; healthy gearing levels – As on March 31, 2024, the company's debt profile comprised working capital borrowings of ~Rs. 18 crore and non-convertible redeemable preference shares (NCRPS) of ~Rs. 19 crore majorly from

the Group company, GEIL. The company has nil term loan. GTNIL's capital structure stood comfortable at 0.5 times as on March 31, 2024, marked by low reliance on external borrowings. ICRA expects GTNIL's gearing to remain conservative at less than 0.5 times over the medium term with an interest cover above 1.5 times going forward.

Credit challenges

Weak financial risk profile; profitability remains vulnerable to fluctuation in raw material prices – Cotton constitutes a significant portion of the entity's 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 FY2024 and H1 FY2025, as financial performance remained subdued owing to inconsistent crop yield and elevated raw material prices. GTNIL has also witnessed net losses of ~Rs. 0.9 crore in H1 FY2025, although positive at operating levels, mainly due to subdued demand in both domestic as well as in export markets. However, with slight improvement expected in H2 FY2025 owing to raw material (cotton) sourcing by the company in September 2024 at a favourable price, the company expects to report modest operating profit for the full fiscal. The near-to-medium term performance will depend on the overall demand conditions and availability of raw materials at competitive prices, which is expected to improve gradually.

Working capital intensive nature of operations – The company's operations are working capital-intensive in nature, reflected by the NWC/OI of ~31% as of March 2024, mainly due to high inventory and debtor levels.

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 result in limited pricing power and profitability.

Environmental and social risks

Environmental considerations - Spinning companies using natural fibres are exposed to agro-climatic risks as quality, prices and supply of the natural raw materials (such as cotton, wool, silk etc.) depend on climatic conditions, rainfall patterns and crop infestations, among others.

Social considerations - The social risk for the sector arises from high labour involvement despite increasing mechanisation. The sector is exposed to risks related to the workforce and protests/social issues with local communities, which might impact expansion/modernisation plans. The entity is also exposed to the risk of operational disruptions owing to the inability to efficiently manage human capital, in terms of their safety and overall well-being.

Liquidity position: Adequate

The company's liquidity is expected to remain adequate with cash and liquid investment of ~Rs. 11 crore as on March 31, 2024, low utilisation of working capital limits, nil term loan repayment obligations and no major capital expenditure plans in the near term, providing comfort to its 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 ratings may arise if there is a deterioration in the operational performance of the company and/or any weakening of linkages with the promoter group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles - Spinning
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

About the company

GTNIL manufactures and trades in cotton yarn and is a part of the Hyderabad-based GTN Group, which has diversified business interests ranging from textiles to engineering. GTNIL was founded by Late M. L. Patodia. At present, the company is managed by Mr. M. K. Patodia. The company's shares are listed on the Indian exchanges. Earlier, GTNIL had an installed capacity of 97,104 spindles across its two spinning units in Medak (Telangana) and Nagpur (Maharashtra). However, the Medak unit was sold to the Group company, GEIL, on May 1, 2022, and now the company operates with 41,856 spindles.

Key financial indicators (audited)

GTNIL Standalone	FY2023	FY2024	H1 FY2025
Operating income	313.9	185.4	90.1
PAT	15.6	-6.3	-0.9
OPBDIT/OI	9.8%	-0.8%	1.2%
PAT/OI	5.0%	-3.4%	-1.0%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	-
Total debt/OPBDIT (times)	1.0	-26.2	-
Interest coverage (times)	4.1	-0.4	0.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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)	Current rating (FY2025)		Chronology of rating history for the past 3 years			Date & rating in FY2022
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Apr 01, 2022		
			Dec 11, 2024	Jan 25, 2024	Nov 15, 2022		Aug 06, 2021	
3	Non-fund Based limits	Short term	-	-	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4
4	Fund based	Long term/Short term	54.00	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Positive) withdrawn /[ICRA]A4+	[ICRA]B+ (Stable) /[ICRA]A4
5	Unallocated limits	Long term/Short term	0.00	-	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term Fund-based	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term/Short-term Fund-based	NA	NA	NA	54.00	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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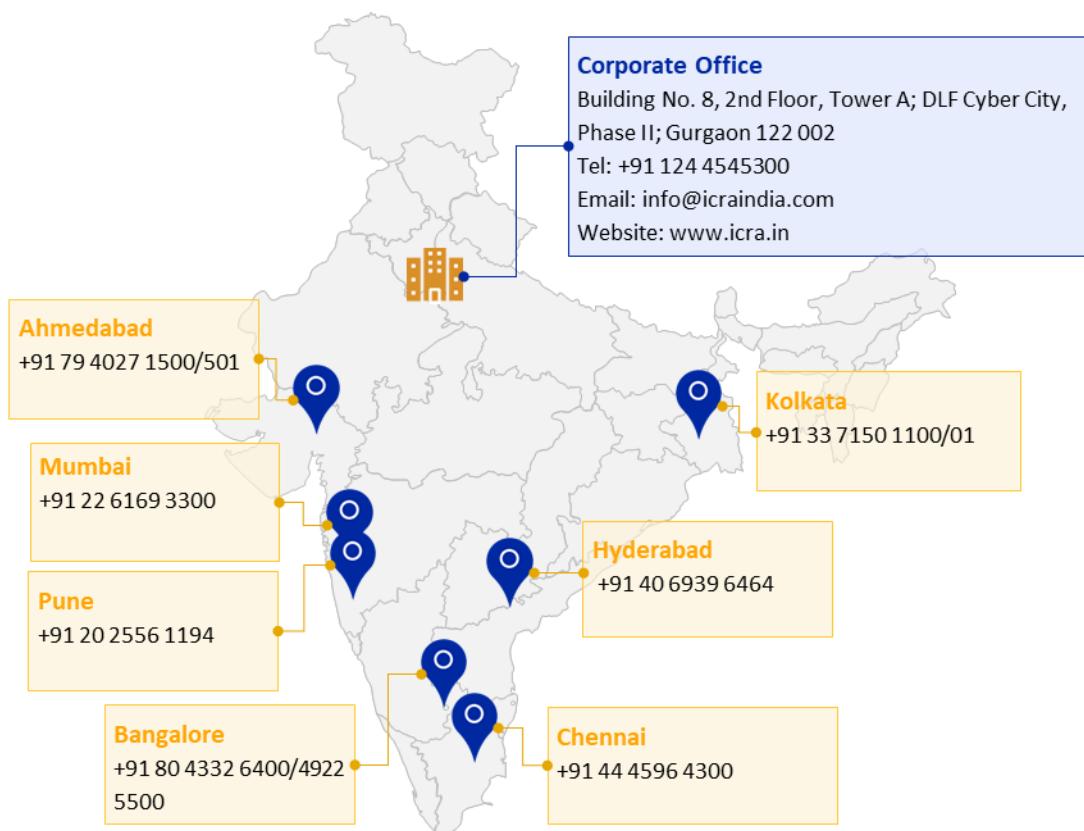
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