September 05, 2017

GTN Industries Limited

Summary of rated instruments

Instruments*	Amount (Rs. crore)	Rating action
Term Loans	92.49 (revised from 67.80)	[ICRA]B (Stable); reaffirmed
Fund-Based Limits	87.36	[ICRA]A4; reaffirmed
Non Fund-Based Limits	26.20	[ICRA]A4; reaffirmed
Unallocated Limits	0.31	[ICRA]B (Stable)/A4; assigned
	206.36	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B) for the Rs. 92.49-crore (revised from Rs 67.80 crore) term loan facilities and the short-term rating of [ICRA]A4 (pronounced ICRA A four) outstanding on the Rs. 87.36-crore fund-based and Rs. 26.20-crore non-fund based facilities of GTN Industries Limited (GIL). ICRA has also assigned a long-term/short-term rating of [ICRA]B/A4 for Rs 0.31-crore unallocated limits of GIL. The outlook on the long-term rating is stable.

Rationale

The re-affirmation of ratings consider the established presence of the company in the domestic cotton yarn market, its long standing relationship with reputed customers in the domestic and exports markets, diversified product base with presence in compact and gassed yarns and rich experience of the promoters in the industry. The ratings also factor in the financial flexibility enjoyed by GIL by being part of the Hyderabad based GTN Group (which has diversified business interests ranging from textiles to engineering), with consistent track record of funding support from the promoter group primarily GTN Engineering Limited (rated at ICRA BBB+ (stable)/A2+), by the way of issue of redeemable preference shares. The ratings however remain constrained on account of the continued weak performance of GIL, marked by weak earnings from operations and consequent net losses necessitating external funding to support liquidity. Cash flows have been aided by the fund infusion from promoters along with increase in bank borrowings which have been utilized towards meeting the capital expenditure, working capital requirements and large debt repayment obligations. Rising debt levels along with continuous losses have resulted in capital structure and coverage indicators of GIL remaining at modest levels. Performance during FY2017 and Q1FY2018 was constrained by the production disruption at GIL's Nagpur facility (which accounts for 44% of the capacity) and firm cotton prices, in addition to the overall demand scenario being weaker than expected. The ability of the company to improve its volumes and consequent earnings from operations and liquidity position, amid the challenging demand scenario and intense competition would remain key rating sensitivities.

Key rating drivers

Credit strengths

- **Established presence in the spinning industry for over five decades and diversified product range within the cotton yarn segment –** GIL has been operating in the cotton yarn market for over five decades, enjoying established relationship with customers in both the domestic and exports markets. GIL has presence across a diversified product base, with the capability to produce yarn in a wide count range from 10s to 160s apart from value added facilities in the form of 100% compact, gassed, doubling and twisting capacities

- **Financial flexibility enjoyed being part of the GTN group –** GIL is the flagship company of the Hyderabad based GTN Group with diversified business interests. It has received steady financial support over the years from the promoter group primarily GTN Engineering Limited, by the way of preference shares supporting the cash flows and debt servicing.

Credit weaknesses

- **Weak financial profile characterised by negative net-worth owing to sustained losses incurred over the years and strained liquidity position with increasing dependence on external funding support –** GIL's financial profile remains weak on account of the low earnings from operations over the years, resulting in sustained net losses and consequent erosion of net-worth; high working capital intensity coupled with high repayment obligations have resulted in rising dependence on funding support from promoters and incremental debt to support cash flows

- **Earnings exposed to the fluctuations in cotton prices amidst challenging demand scenario and intense competition** –. Earnings of GIL remain exposed to the volatility in cotton prices as witnessed during FY2017, with the pricing flexibility of the company being limited by intense competition and demand being lower than expected during the recent quarters owing to weak export demand for cotton yarn

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Indian Textiles Industry – Spinning

About the company:

GTL, the flagship company of the Hyderabad based GTN group, is engaged in manufacturing and trading of cotton yarn. GTN, which was founded by Late M L Patodia, is presently managed by Mr. M K Patodia. The Company's shares are listed on the Indian bourses and the promoters hold 74.3% stake in the entity. GTN has an installed capacity of 85,344 spindles across its two spinning units at Medak, Andhra Pradesh and Nagpur, Maharashtra. The company procures Indian cotton varieties such as Bunny, MCU-5, ECH and S-6, which constitute ~60-65% of total purchases while the import cotton varieties like Pima and Giza constitute the rest. GTN markets its produce majorly in the domestic markets, contributing to over 60% of its revenues. The rest is constituted by exports, made to the markets of Brazil, Italy, Korea and

Turkey. In September 2014, GTN hived off its loss-making yarn processing and knitting division to GTN Engineering Limited via slump sale for sale consideration of Rs. 30.50 crore.

Key Financial Indicators

	FY2016	FY2017
Operating Income (Rs. crore)	280.1	283.8
PAT (Rs. crore)	-4.4	-6.5
OPBDIT/ OI (%)	7.8%	6.8%
RoCE (%)	7.7%	7.2%
Total Debt/ TNW (times)	28.3	- 271.5
Total Debt/ OPBDIT (times)	7.6	8.2
Interest coverage (times)	1.2	1.1
NWC/ OI (%)	19.5%	15.5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				September 2017	July 2017	October 2015	December 2014
1	Term Loans	Long Term	92.49	[ICRA]B (stable)	[ICRA]B	[ICRA]B	[ICRA]B
2	Fund Based	Short Term	87.36	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non Fund Based	Short Term	26.20	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated	Long Term/ Short Term	0.31	[ICRA]B (stable) /[ICRA]A4	NA	NA	NA

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Term Loans	-	-	Ranging from FY2021 to FY2025	92.49	[ICRA]B(Stable)
Working Capital Facilities (CC/EFC/PCFC)	-	-	-	87.36	[ICRA]A4
Letter of Credit/Bank Guarantee	-	-	-	26.20	[ICRA]A4
Unallocated Limits	-			0.31	[ICRA]B(Stable)/ [ICRA]A4

Source: GIL

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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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