GTN Industries Limited

September 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	92.49	69.20	[ICRA]B reaffirmed; Outlook revised to Positive from Stable
Fund-based limits	87.36	87.36	[ICRA]A4; reaffirmed
Non-fund based limits	26.20	26.20	[ICRA]A4; reaffirmed
Unallocated limits	0.31	-	-
Total	**206.36**	**182.76**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B)[1] outstanding on the Rs. 69.20-crore[2] term loan facilities of GTN Industries Limited (GIL). ICRA has also reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) outstanding on the fund-based bank facilities of Rs. 87.36 crore and non-fund based bank facilities of Rs. 26.20 crore of GIL. The outlook on the long-term rating has been revised from Stable to Positive.

Rationale

The revision in outlook reflects the expected improvement in operational and financial performance of the company in the coming quarters on the back of recent capacity expansion, focused automation, cost-control measures, and gradual recovery in the domestic yarn demand. Performance of GIL remained modest in FY2018, as expected, due to tepid demand conditions amid firm cotton prices and production disruption at its Nagpur facility in Q1 FY2018. The resultant weak earnings from operations and consequent net losses led to GIL's continued dependence on external funding in the form of fund infusion by promoters along with high bank borrowings to support liquidity. To improve its volumes and operational efficiency, GIL has expanded its capacity and incurred expenditure towards automation of its facilities, funded through a mix of debt and promoter funds, which are likely to support revenue growth of around 10% and aid in expansion of operating margins. The ability of the company to turn around its performance remains critical, given the high debt repayment obligations due in the current fiscal. The ratings consider the established presence of the company in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets, diversified product base with presence in compact and gassed yarns, and extensive experience of the promoters in the industry. GIL enjoys moderate financial flexibility for being a part of the Hyderabad-based GTN Group, with consistent track record of funding support from the promoter group (including GTN Engineering Limited, rated at [ICRA]BBB+(Stable)/A2+) by the way of issue of redeemable preference shares. The ratings remain constrained by the weak financial profile of GIL owing to the continuous losses incurred during recent fiscals, resulting in steady erosion of net worth and modest debt coverage metrics. Besides, its earnings are susceptible to volatility in cotton prices, given the limited pricing flexibility owing to the commoditised nature of the product.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

Outlook: Positive

The Positive outlook reflects the expected improvement in earnings and liquidity position of GIL in the coming quarters, following the recent expenditure incurred on expansion and automation. The outlook may be revised to Stable if growth in revenues and earnings are weaker than expected in the coming quarters, which may result in tight cash flows and continued dependence on external funding support to meet its debt servicing obligations.

Key rating drivers

Credit strengths

Established presence and diversified product range – 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. The same has supported steady volumes over the years, buffering the impact of adverse demand conditions and the implementation of the Goods and Services Tax (GST). The company enjoys a diversified product base, with presence across a wide count range from 10s to 160s, in addition to value-added facilities in the form of 100% compact, gassed, doubling and twisting capacities.

Financial flexibility enjoyed for being a part of the GTN Group – GIL has received steady financial support over the years from the promoters of the GTN Group and also from the promoter group-owned GTN Engineering Limited (GEL). During FY2018, total fund infusion from the promoter Group stood at Rs. 14.60 crore to support GIL's cash flows and debt servicing. As on March 31, 2018, GEL has a total investment of Rs. 40.60 crore in the redeemable preference shares of the company and also holds a 35% stake in GIL.

Credit challenges

Weak financial profile – GTN's financial profile remains constrained due to low earnings from operations during the recent fiscals, resulting in sustained net losses and consequent erosion of net worth. Further, the inherent high working capital intensity in the business, coupled with recent debt-funded capital expenditure and high repayment obligations have resulted in strained liquidity position, leading to continued dependence on funding support from promoters and external debt to support its cash flows. The anticipated growth in revenues and earnings are likely to support some improvement in coverage metrics and liquidity position in the coming quarters.

Intense competition limits pricing flexibility and exposes earnings to price risk – GIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented structure, which restrict pricing flexibility. Thus, the earnings of spinners remain exposed to the volatility in cotton prices, which have constrained contribution levels in the past. In addition, the requirement of stocking cotton during the harvest season results in working capital intensive operations and increases the price risk. But the same risk has been mitigated to an extent by the relatively low cotton stock holding witnessed over the years.

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:

GIL manufactures and trades in cotton yarn and is a part of the established GTN Group, which has diversified business interests ranging from textiles to engineering. GTN was founded by the Late Mr. M L Patodia and managed at present by Mr. M K Patodia. The company's shares are listed on the Indian bourses and the promoters hold a 74.3% stake in the entity. GTN has an installed capacity of 97,584 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 the total purchases while the import cotton varieties like Pima and Giza constitute the rest. Around 60% of its sales are made in the domestic market and the rest is exported to markets like Brazil, Italy, Korea and Turkey among others.

In FY2018, GTN reported a net loss of Rs. 6.2 crore on an operating income of Rs. 295.5 crore compared to a net loss of Rs. 6.5 crore on an operating income of Rs.283.8 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	283.8	295.5
PAT (Rs. crore)	-6.5	-6.2
OPBDITA/OI (%)	6.8%	6.3%
RoCE (%)	7.2%	7.6%
Total Debt/TNW (times)	4.5	8.9
Total Debt/OPBDITA (times)	6.6	9.9
Interest coverage (times)	1.1	0.8

Note: OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: GTN

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Sep 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 Jul 2016	Date & Rating in FY2016 Oct 2015
1	Term loans	Long Term	69.20	69.20	**[ICRA]B (Positive)**	**[ICRA]B (Stable)**	**[ICRA]B (Stable)**	**[ICRA]B (Stable)**
2	Fund-based	Short Term	87.36	87.36	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
3	Non fund-based	Short Term	26.20	26.20	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
4	Unallocated limits	Long term/ Short term	0.31	-	**-**	**[ICRA]B (Stable)/ [ICRA]A4**	**-**	**-**

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	-	-	Ranging from FY2021 to FY2024	69.20	[ICRA]B(Positive)
Na	Working capital facilities (CC/EFC/PCFC)	-	-	-	87.36	[ICRA]A4
NA	Letter of credit/Bank guarantee	-	-	-	26.20	[ICRA]A4

Source: GTN Industries Limited

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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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