September 01, 2020

GTN Industries Limited: Long-term rating downgraded to [ICRA]B- (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	50.70	44.18	[ICRA]B- (Stable); Revised from [ICRA]B (Stable)
Fund-based limits	87.36	87.10	[ICRA]A4; reaffirmed
Non-fund Based limits	26.20	25.60	[ICRA]A4; reaffirmed
Unallocated Limits	18.50	-	-
Total	182.76	156.88	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating of GTN Industries Limited (GTNIL) reflects poor liquidity position and deterioration in financial risk profile. The spread of Covid-19 and the subsequent measures taken by the Government towards containment of the pandemic, has impacted operations of company in Q1 FY2021. The company reported y-o-y degrowth in OI by 52% and operating losses of around 5% in Q1 FY2021.

The ratings continue to remain constrained by GTNIL's weak financial profile characterized by net losses and high gearing. Also, the working capital intensive nature of the business and high repayment obligations have resulted in weak liquidity position, leading to continued dependence on funding support from promoters to support its cash flows. GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented industry structure, which results in limited pricing power and profitability. Thus, its earnings remain exposed to the volatility in cotton prices, which have constrained contribution levels in the past. ICRA notes the negative demand outlook for Indian cotton spinning industry due to weak domestic and export market demand owing to the impact of Covid-19 and uncompetitive cotton prices continue to take a toll on financial performance of cotton spinning companies.

The rating, however, derives comfort from the established presence of the company in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets and extensive promoter experience of more than five decades in the cotton spinning industry. Further, the rating takes into account the track record of funding support from the group company, GTN Engineering India Limited (GEIL, rated [ICRA]BBB+ (Stable)/A2+) to meet debt obligations of GTNIL.

The stable outlook reflects ICRA's belief that GEIL/promoters would extend timely support to meet any shortfall in debt obligations.

Key rating drivers and their description

Credit strengths

Established presence in domestic market and extensive promoter experience: The established presence of the company in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets and extensive promoter experience of more than five decades in the cotton spinning industry. Further, the rating takes into account the track record of funding support from the group company, GEIL to meet debt obligations of GTNIL.

Credit challenges

Impact of Covid-19 pandemic: The spread of Covid-19 and the subsequent measures taken by the Government towards containment of the pandemic, has impacted operations of company in Q1 FY2021. The company reported y-o-y degrowth in OI by 52% and operating losses of around 5% in Q1 FY2021.

Weak financial profile: GTNIL's financial profile remains weak characterized by net losses and high gearing. Also, the working capital intensive nature of the business and high repayment obligations have resulted in weak liquidity position, leading to continued dependence on funding support from promoters to support its cash flows.

Intense competition limits pricing power: GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented industry structure, which results in limited pricing power and profitability. Thus, its earnings remain exposed to the volatility in cotton prices, which have constrained contribution levels in the past.

Negative industry outlook: ICRA notes the negative demand outlook for Indian cotton spinning industry due to weak domestic and export market demand owing to the impact of Covid-19 and uncompetitive cotton prices continue to take a toll on financial performance of cotton spinning companies.

Liquidity position: Poor

The liquidity profile of GTNIL remains poor on account high utilisation of working-capital limits and insufficient cash accruals for debt repayments in the near term. The company has unencumbered cash balance of Rs. 0.2 crore as on June 30, 2020. Consequently, GTNIL's debt servicing ability will critically hinge on the timely support from GEIL/promoters to meet any shortfall in debt obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade GTNIL's rating if the company demonstrates higher than expected growth in revenues and profitability on a sustained basis therby improving the liquidity profile and coverage metrics.

Negative triggers – Negative pressure on rating may arise if any deterioration in the operational performance of the company than expected and/or any weakening of linkages with promoter group and/or any delay in receiving support from the group company to repay the debt obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating Rating Methodology for Entities in the Textile Industry - Spinning
Parent/Group Support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]BBB+ (Stable)/A2+) and GTNIL's promoters to be willing to extend financial support to GTNIL, should there be a need. There is a track record of funding support from promoter group in the past.
Consolidation/Standalone	Standalone

About the company

GTN Industries Limited (GTNIL) 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 Late Mr. M L Patodia and at present is managed 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. GTNIL has an installed capacity of 92,400 spindles across its two spinning units at Medak, Telangana and Nagpur, Maharashtra. In FY2020, around 56% of its sales are made in the domestic market and the rest is exported to markets like Bangladesh, Italy, Greece and Turkey among others.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. Crore)	356.7	344.2
PAT (Rs. Crore)	-8.4	-5.4
OPBDIT/OI (%)	5.0%	5.5%
PAT/OI (%)	-2.3%	-1.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.9	4.3
Total Debt/OPBDIT (times)	10.1	9.1
Interest coverage (times)	0.8	0.8

Source: GTNIL; ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020		FY2019	FY2018
					1-Sep-20	15-Nov-19	14-May-19	28-Sep-18	05-Sep-17
1	Term Loan	Long Term	44.18	44.18	[ICRA]B- (Stable)	[ICRA]B (Stable)	[ICRA]C	[ICRA]B (Positive)	[ICRA]B (Stable)
2	Fund-based	Short Term	87.10	87.10	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non-Fund based	Short Term	25.60	25.60	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated Limits	Long Term/Short Term	0.0	0.0	-	[ICRA]B (Stable) /[ICRA]A4	[ICRA]C/ [ICRA]A4	-	[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 Loan	March 2017	12.00%	March 2023	44.18	[ICRA]B- (Stable)
NA	Working capital facilities	-	11.30%	-	87.10	[ICRA]A4
NA	Letter of credit/ Bank Guarantee	-	-	-	25.60	[ICRA]A4

Source: GTNIL

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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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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