

January 10, 2023

Goodcore Spintex Private Limited: Ratings downgraded to [ICRA]BBB+(CE) (Stable)/[ICRA]A2(CE)

Summary of rating action

Instrument [^]	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limit- Term Loan	72.5	72.5	[ICRA]BBB+(CE) (Stable); downgraded from [ICRA]A-(CE) (Stable)
Fund-based Limit- Cash Credit	34.0	34.0	[ICRA]BBB+(CE) (Stable); downgraded from [ICRA]A-(CE) (Stable)
Non-Fund Based- Bank Guarantee	8.00	8.00	[ICRA]A2(CE); downgraded from [ICRA]A2+(CE)
Total	114.50	114.50	

Rating Without Explicit Credit Enhancement

[ICRA]BBB- / [ICRA] A3

[^]Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The ratings action of Goodcore Spintex Private Limited (GSPL) considers the unconditional and irrevocable corporate guarantee extended by the parent company, Jindal Worldwide Limited (JWL or the guarantor), for the said bank facilities of GSPL. The ratings assigned are principally based on the corporate guarantee provided by JWL.

The ratings downgrade factors in the moderation in the financial profile of the JWL Group,¹ marked by high debt levels owing to debt-funded capital expenditure incurred in FY2022. Additionally, the JWL Group had also given significant loans and advances, to other related (owned by promoters) entities. As a result, the Group's debt levels have remained elevated, translating into a subdued financial profile. ICRA, however, derives comfort from the extensive experience of the promoters in the industry as well as the Group's leading position in denim manufacturing in India with an annual installed capacity of ~140 million metre per annum (including job work). Also, over the past few years, JWL has set up various group companies to facilitate backward integration and increase the weaving capacity. These entities are eligible for incentives under different Central and state Government schemes, which support the Group's overall returns. Additionally, the manufacturing facility is in Gujarat, which is in proximity to the cotton growing belt. The ratings, also, remain constrained by the inherent cyclicity associated with the denim sector, susceptibility of profitability to fluctuations in raw material prices (mainly cotton) and the working capital-intensive nature of operations.

The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, JWL.

¹ Includes JWL, its 4 subsidiaries and 10 other entities to which JWL has provided corporate guarantees. JWL's subsidiaries include Planet Spinning Mills Private Limited, Jindal Mobilitric Private Limited, Kashyap Tele-Medicines Limited and Goodcore Spintex Private Limited. The other entities to which JWL has provided corporate guarantees include Gayatri Weavers Private Limited, Yash Weavers Private Limited, Yash Exports (India) Private Limited, Amitara Overseas Private Limited, Bhagyalakshmi Spintex Private Limited, Deepshikha Exim Private Limited, Niharika Threads Private Limited, Balaji Weft Private Limited, Saroj Weavers Private Limited and Jindal Creations Private Limited.

Adequacy of credit enhancement

ICRA has assessed the attributes of the guarantee issued by JWL in favour of GSPL's bank facilities to arrive at the ratings. The guarantee is legally enforceable, irrevocable, unconditional, has a defined repayment schedule and covers the entire amount and tenure of the rated facilities and has a well-defined payment mechanism. Moreover, the guarantee has other attributes as specified by the RBI's guidance note and ICRA's methodology for CE ratings.

Taking cognisance of the above, ICRA has assigned the ratings of [ICRA]BBB+(CE)/[ICRA]A2(CE) to the said bank facilities against the unsupported rating of [ICRA]BBB-/ [ICRA]A3. In case the ratings of the guarantor or the unsupported ratings of GSPL change, the same would have a bearing on the ratings of the aforesaid bank facilities as well. The ratings of these bank facilities may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or a change in the reputation sensitivity of the guarantor to a default by the rated entity, or if there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » GSPL to ensure that unsecured loans will not be withdrawn during the entire tenure of the loan
- » Financial covenants to be maintained

Parameters (For Working Capital)	Benchmark Level
Current Ratio	1.33
TOL/TNW	3:1
ICR	1.50

Key rating drivers and their description

Credit strengths

Strong parentage of Jindal Group, corporate guarantee provided by JWL – JWL has extended unconditional and irrevocable corporate guarantee for due payment of obligations under the bank facilities of GSPL. The guarantee also covers other attributes as specified by the RBI's guidance note and ICRA's methodology on CE rating. The entities belong to the Ahmedabad-based Jindal Group. JWL is one of the leading denim manufacturers in India and has established relationships with suppliers and customers, GSPL is a captive supplier of cotton yarn to JWL, which mitigates the product offtake risks. The manufacturing facilities of the Group are in Ahmedabad, in proximity to the cotton growing belt in Gujarat. Also, over the past few years, JWL has set up various group companies to facilitate backward integration and increase the weaving capacity, which supports the overall operational risk profile of JWL. Various capital expenditure (capex) undertaken by JWL, including under GSPL, are eligible for incentives under different Central and state Government schemes such as interest subsidy on term loan, capital subsidy on plant and machinery, Goods & Service Tax (GST) refund and power subsidy. These incentives support the Group's overall returns, however, timely receipt of the same remains crucial.

Extensive experience of the promoters in the textile industry – GSPL benefits from the extensive experience of the management and the Group's established track record in the textile industry. Dr. Yamunadutt Agrawal is the Founder and Chairman of the Group and has more than four decades of experience in the textile industry. Under his leadership, the Group has been able to establish its reputation in the market and has become a known player in the denim industry.

Credit challenges

Moderation in financial profile –The financial profile of the JWL Group moderated in FY2022 with increased debt levels owing to the debt-funded capital expenditure incurred in FY2022. Additionally, the JWL Group had also extended significant loans

and advances to other related (owned by promoters) entities. The Group has provided long-term loans and advances mainly to other related (owned by promoters) entities amounting to Rs.220.3 crore as on March 31, 2022 and Rs. 334.2 crore as on September 30, 2022, respectively, accounting for 31% and 43% of the net worth. In addition, there are short-term advances of Rs. 224.7 crore as on March 31, 2022 and Rs. 194.8 crore as on September 30, 2022. As a result, JWL's debt levels remained elevated, translating into subdued financial profile with total debt to operating profit of 3.2 times as on March 31, 2022 despite increased scale of operations and profits. The management has indicated that Rs.180 crore is expected to be recovered in FY2023 and the balance by March 2024. This remains a key rating monitorable. GSPL commenced operations in May 2022. Its financial profile is moderate, characterised by modest scale, thin OPMs and high debt levels.

Growth prospects closely linked with performance of JWL; exposed to cyclical nature of denim industry – GSPL's growth prospects are closely linked to that of JWL. Consequently, GSPL will remain exposed to the inherent cyclicity in the denim industry, with periods of excess market capacity and tight demand-supply situations. An oversupply situation exerts pressure on the company's profitability by adversely impacting the volumes and pricing power, in line with the industry trends.

Vulnerability of profitability to adverse fluctuations in raw material prices – The profit margins of the company will also remain susceptible to raw material price fluctuations, which affects sales realisations. Any adverse movement in the prices of key raw materials like cotton could have an adverse impact on the margins.

Liquidity position (Guarantor, JWL): Adequate

JWL's liquidity profile is adequate, supported by available free cash and bank balances of Rs. 170.8 crore as on September 30, 2022. Besides, average utilisation of the working capital stood at 83% of the sanctioned limits of Rs.250.0 crore during the 12-month period ending in September 2022, which provides additional buffer of Rs.42.4 crore as on September 30, 2022. Additionally, at the consolidated basis, the Group is expected to generate healthy cash flows in the range of Rs.165 crore to Rs.200 crore during FY2023-FY2025, which are sufficient to repay its long-term debt obligation of Rs.109.7 crore, Rs.108.9 crore, Rs.101.5 crore and Rs.81.9 crore in FY2023, FY2024, FY2025 and FY2026 respectively. The estimated capital expenditure (capex) for FY2023 stands at Rs. 150 crore, including Rs. 134 crore towards setting up of spinning facilities under Goodcore Spintex Private Limited, funded by additional term loan of Rs. 87.1 crore. The management as of now, has not indicated any further capacity expansion plans and estimates to incur only maintenance capex in FY2024. The Group also announced its foray into the electric vehicle (EV) segment in H1 FY2023. However, as guided by the management, no large capital outlay is expected in this segment over the next one year.

Liquidity position (Borrower, GSPL): Adequate

The liquidity profile remains adequate with availability of GSPL's free cash and bank balance of Rs.1.7 crore as on September 30, 2022. Additionally, at the consolidated basis, the Group is expected to generate healthy cash flows and is expected to provide need-based funding support to GSPL. Going forward, GSPL is expected to generate enough cash flows, which are sufficient to repay its long-term debt obligation of Rs. 4.3 crore in FY2023 and Rs.6.5 crore in FY2024. The company is expected to incur only maintenance capex, going forward.

Rating sensitivities

Positive factors – ICRA could upgrade GSPL's ratings in case of an improvement in the credit profile of JWL.

Negative factors – ICRA could downgrade GSPL's ratings if there is any weakening of linkages with JWL or a deterioration in the guarantor's credit profile. Any sharp decline in revenues and profits of GSPL, adversely impacting its debt coverage indicators and/or the liquidity position would also be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Textile- Spinning Rating Approach – Explicit third-party support
Parent/Group Support	Parent Company-Jindal Worldwide Limited. The ratings for the bank facilities are based on GSPL's standalone business and financial profiles, which are enhanced on the basis of significant business and financial linkages with the JWL Group and an unconditional and irrevocable corporate guarantee provided by JWL. This corporate guarantee meets other attributes as specified by the RBI's guidance note and ICRA's methodology on CE rating
Consolidation/Standalone	Standalone

About the company

Goodcore Spintex Private Limited (GSPL) was incorporated in October 2020 for setting up a spinning unit for producing cotton yarn. It has an open-ended spinning facility with 2,760 rotors and ring-frame facility with 36,480 spindles, with a capacity to produce 26,899 kg of open-end yarn and 31,229 kg of ring frame yarn per day.

GSPL has been floated by JWL, which is involved in manufacturing of denim fabric, yarn-dyed shirting and bottom-wear. GSPL became the subsidiary of JWL in May 2022. The yarn manufactured by GSPL is captively used by JWL.

About the guarantor

Jindal Worldwide Limited (JWL) is the flagship company of the Ahmedabad-based Jindal Group. Promoted by the Agrawal family, JWL was incorporated in 1986. It is listed on BSE and NSE and is a leading textile player in India. With an annual installed capacity of ~140 million metre (including job work) per annum, JWL is among the leading denim manufacturers in India. It also manufactures cotton-based bottom-wear and printed shirting.

Key financial indicators (GSPL): Not applicable as FY2023 is the first year of commercial operations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Sanctioned Amount (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan-10-2023	May-02-2022	-	-
1	Fund-based Limit- Term Loan	Long-term	72.50	72.50	[ICRA]BBB+(CE) (Stable)	[ICRA]A-(CE) (Stable)	-	-
2	Fund-based Limit- Cash Credit	Long-term	34.00	-	[ICRA]BBB+(CE) (Stable)	[ICRA]A-(CE) (Stable)	-	-
3	Non-Fund Based- Bank Guarantee	Short-term	8.00	-	[ICRA] A2 (CE)	[ICRA] A2+ (CE)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limit- Term Loan	Simple
Fund-based Limit- Cash Credit	Simple
Non-Fund Based- Bank Guarantee	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, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits- Term Loan	Dec-2021	-	March-2023	72.50	[ICRA]BBB+ (CE) (Stable)
NA	Fund-based Limits- Cash Credit	-	-	-	34.00	[ICRA] BBB+ (CE) (Stable)
NA	Non-Fund-based Limits- Bank Guarantee	-	-	-	8.00	[ICRA] A2 (CE)

Source: GSPL

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

Annexure-2: List of entities considered for consolidated analysis : Not applicable

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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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Branches



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