

December 28, 2023

## G.M. Syntex Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term –Fund based –Term Loan	59.00	59.00	[ICRA]A- (Stable); reaffirmed
Long term/ Short term –Fund based limits –Cash Credit/Post & Pre shipment credit	99.00	99.00	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
<b>Total</b>	<b>158.00</b>	<b>158.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation continues to consider G.M. Syntex Pvt. Ltd.'s (GMSPL) established presence and significant experience of the promoters in the textile industry and the company's established client base, resulting in repeat orders. Besides a strong track record of performance, the 'Pure' brand has an established presence in the market and commands premium over its competitors. The ratings also consider GMSPL's well integrated operations across the textile value chain, from yarn processing to finished fabrics supplying. The ratings also factor in the company's healthy financial profile, marked by a comfortable gearing and a strong net worth base. However, the growth remained muted owing to subdued demand in the export market. In FY2023, the company reported sales of Rs. 538 crore against Rs. 542 crore in FY2022 and the operating margin moderated to 13.4% in FY2023 from 14.5% in FY2022 owing to high raw material expenses. The company's domestic sales continued to perform well, primarily led by the strategic partnership with Asian Paints. The coverage indicators remained healthy at 7.8 times in FY2023. In FY2024, the revenue is expected to grow by 5-6%, driven by the likely improvement in business from Asian paints. However, export volume is expected to be muted as inflationary concerns are impacting demand in key global economies. The margins are also likely to increase owing to low raw material costs. Also, sizeable capital subsidy is expected in FY2024 and in the coming 2-3 years, which is also likely to support the margins to an extent.

The ratings, however, remain constrained by the high working capital intensive nature of operations, resulting in high net working capital to operating income (NWC/OI) of around 34% in FY2023. The company's utilisation of working capital limit remained high at ~94% of the sanctioned limits during the last 10 months ending in September 2023 on an average, thus impacting liquidity. The debt is expected to reduce with the receipt of capital subsidy. The ratings also consider the presence of GMSPL in the highly fragmented textile industry, characterised by intense competition from established domestic and international players in the branded segment although the company's established brand name mitigates the risk to an extent. As a substantial share of the total revenues comes from the export markets, the company also remained vulnerable to volatility in foreign currency exchange rates, global textile demand conditions and volatility of raw material prices.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GMSPL's credit profile is expected to remain comfortable, supported by its established presence in the niche value-added textiles segment and a strong financial profile.

### Key rating drivers and their description

#### Credit strengths

**Healthy financial risk profile; comfortable capital structure marked by strong net worth base** – The company's scale and profit margin moderated in FY2023 owing to weak global scenario. In FY2024, the growth is expected to be in single digit, driven by the expected improvement in business from Asian paints, with improved margins owing to low raw material costs. The export sales are expected to remain muted. The company continues to maintain a healthy financial risk profile, marked by a strong net worth base and a favourable capital structure, characterised by a gearing of 0.9 times as on March 31, 2023. The

coverage metrics also remained healthy with an interest cover of 7.8 times in FY2023. Despite the regular debt-funded capital expenditure, the company's debt protection metrics are expected to remain adequate, given its strong net worth and consistent positive cash generation from operations. In addition, the total debt comprises Rs. 63.7 crore of unsecured loans from promoters, which is interest free in nature.

**Partnership with Asian Paints gives access to wide distribution channels and recognition of 'Pure' brand in the domestic market** – In April 2021, GMSPL entered into a strategic partnership with Asian Paints for the next five years with a lock-in clause for initial three years. The partnership enables Asian Paints to use the 'Pure' brand of GMSPL and conduct retail sales of fabrics through its wide distribution network. The same contributed well to GMSPL's revenues in FY2023 and ICRA expects the support to continue in the medium term.

**Well integrated operations across the textile value chain** – GMSPL continues to specialise in the manufacturing of curtain fabrics, primarily catering to the premium segment. The company offers a wide variety of curtain fabrics like silk looking jacquard, embroidery on sheer, plain and fancy jacquard, jacquard and sheer and rotary printing on plain to its customers. The company's primary raw materials include various types of yarns like cotton yarn, polyester yarn, viscose yarn, blended yarn etc., which are sourced locally from established suppliers. GMSPL's operations are backward integrated from processing of yarn to the finishing stage of curtain fabrics, strengthening its sourcing capabilities and facilitating supply of high value-added fabrics. However, the company does not have yarn manufacturing facilities.

**Established client relationships spanning several years** – The product is promoted under the brand names, 'Pure', 'Pure Concept' and 'G.M. Syntex'. The brands enjoy moderate recognition in local as well as international markets. The company's customer base comprises several reputed international traders and dealers. GMSPL's strong market position and wide acceptability for its products and quality are reflected in several repeat orders from its key customers. The company's export sales are well diversified in several countries with the UK and the US being the key markets. In the local market, apart from the partnership with Asian Paints, GMSPL has tied up with several dealer outlets pan India.

## Credit challenges

**High working capital intensity impacting liquidity** – The company's scale of operations is highly working capital intensive with working capital intensity of 34% as on March 31, 2023 primarily on account of high receivables and inventory levels required in the segment, in line with the industry requirements. The company usually maintains inventory for different types of yarn and semi-finished goods fabrics for faster order execution. Further, the company's average working capital limit utilisation continued to remain high at ~94% of the sanctioned limits during the 10-month period ended in September 2023.

**Intense competition from domestic and global players in the branded segment particularly in curtain fabrics, however, company's strong foothold in the segment helped maintain competitive edge** – The premium segment of the Indian home furnishing industry is ruled by well-organised players. Large Indian players and foreign companies are operating in the premium and super-premium furnishing categories. High quality raw materials, embellishments, design developments and a well-established brand name are the key differentiating factors for the players. The industry is intensely competitive with established domestic and international players in the branded segment, particularly in curtain fabrics. However, the company's ability to continuously improvise its products as per the current market trends and wide product offerings in innovative designs, aided by regular capex, have supported growth and sustenance of margins.

**Risks associated with global textile demand conditions and volatility in raw material prices** – The company's primary raw material, cotton yarn, is derived from cotton, which exhibits price volatility. Although the company benefits from operating in a high value-added segment, its profitability remains exposed to adverse fluctuations in prices of key raw materials and its ability to pass on the same to its customers. Further, the textile sector is inherently cyclical and an industry-wide downturn may adversely impact the entity's operating and financial profiles. However, the ability of the company to pass on the rise in prices through various rounds of price hikes, as demonstrated in the past, mitigates the risk to an extent.

**Revenues susceptible to fluctuations in forex rates, mitigated to an extent by partial hedging** – GMSPL's profitability remains susceptible to adverse movements in foreign exchange rates, given that ~35% of the revenues are derived from exports. However, partial hedging through forward contracts provides some comfort.

## Liquidity position: Adequate

The company's liquidity position is expected to remain adequate with healthy cash flow from operations, supported by cash and bank balances of ~Rs. 3 crore as on March 31, 2023. Cash accruals are expected to be above Rs. 70 crore per annum over the medium term, which should comfortably cover yearly debt repayment obligation. Further, the expected capital subsidy from the State Government would support its liquidity. ICRA also notes the company's capital expenditure plans of Rs. 50-60 crore in FY2024 and Rs. 20 crore in FY2025, to be funded by both internal accruals and long-term debt. Any large capex plan, constraining its liquidity position, would remain a key monitorable.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the company can significantly increase its revenues while maintaining healthy operating profit margins, leading to an improvement in net cash accruals and liquidity position. Specific triggers for ratings upgrade would be Total Debt/OPBITDA below 2.25 times on a sustained basis.

**Negative factors** – Pressure on the ratings could arise if there is a significant deterioration in scale and operating margins, weakening its debt protection metrics. Additionally, significant large debt-funded capex, impacting the liquidity, would also be a negative trigger. Specific trigger for ratings downgrade will be an interest coverage below 4.00 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles – Fabric</a>
Parent/Group support	NA
Consolidation/Standalone	Standalone

## About the company

Promoted by Mr. Gurbakshish Singh, G.M Syntex Private Limited (GMSPL) was incorporated in 1999. It manufactures curtain fabrics and primarily caters to the premium segment of the market. The company's registered office is in Andheri, Mumbai and manufacturing facility in Tarapur, Maharashtra. Its products are promoted under the brand names, 'Pure', 'G.M. Syntex' and 'Pure Concept'. The company's operations are fully integrated from dyeing of yarn to finishing of curtain fabrics.

## Key financial indicators (audited)

Standalone	FY2022	FY2023	H1 FY2024 <sup>^</sup>
Operating income	541.9	538.1	281.2
PAT	40.9	28.4	25.19
OPBDIT/OI	14.5%	13.4%	16.9%
PAT/OI	7.6%	5.3%	9.0%
Total outside liabilities/Tangible net worth (times)	1.3	1.3	NA
Total debt/OPBDIT (times)	2.4	3.1	NA
Interest coverage (times)	7.1	7.8	6.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

<sup>^</sup>Provisional financials, NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 28, 2023	Sep 19, 2022	Aug 31, 2021	Jun 25, 2020
1 Term Loan	Long-term	59.00	73.93	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]BB+(Stable); ISSUER NOT COOPERATING
2 Capex LC Sublimit Of Term Loan	Short-term	-	-	-	-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING
3 Letter of Credit (Sublimits of pre & post shipment credit) and Bank Guarantee	Short-term	-	-	-	-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4+; ISSUER NOT COOPERATING
4 Cash Credit & PC/PCFC/PS/FOBP/FOUP	Long-term/Short-term	99.00	-	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]B+(Stable)/[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]BB+(Stable)/[ICRA]A4+; ISSUER NOT COOPERATING

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term –Fund based –Term Loan	Simple
Long term/ Short term –Fund based limits –Cash Credit/Post & Pre shipment credit	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 –Fund based – Term Loan	FY2016	NA	FY2028	59.00	[ICRA]A-(Stable)
NA	Long term/ Short term –Fund based limits –Cash Credit/Post & Pre shipment credit	NA	NA	NA	99.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

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

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