

January 25, 2024

## GTN Industries Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Fund based	56.15	61.00	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed
Short -term – Non-Fund based Others	8.55	0.00	-
Long-term/ Short -term – Unallocated	-	3.70	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed
<b>Total</b>	<b>64.70</b>	<b>64.70</b>	

\*Instrument details are provided in Annexure-I

### Rationale

While reaffirming the ratings, ICRA continues to take comfort from GTN Industries Limited's (GTNIL) established presence in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and export markets, along with the promoters' extensive experience of more than five decades in the cotton spinning industry. Further, the ratings factor in ICRA's expectation that GTN Engineering (India) Limited {GEIL rated [ICRA]A- (Stable)/A2+} and GTNIL's promoters would be willing to extend financial support to GTNIL, should there be a need. There has been a track record of funding support from GEIL in the past. In FY2024, the financial performance of GTNIL is expected to remain weak owing to wide fluctuation in raw material prices and weak demand, impacting realisation. GTNIL has witnessed inventory losses in H1 FY2024, resulting in operating losses during the same period. However, with slight improvement expected in H2 FY2024, the company expects to report modest operating profit for the full fiscal. Nonetheless, GTNIL's overall financial profile continues to remain comfortable, led by a conservative capital structure with low external debt and comfortable liquidity owing to cushion in the fund-based limits. Also, with the rundown of the high-cost inventory by FY2024 and expected revival in demand, the profitability is expected to improve from the next fiscal.

The ratings remain constrained on account of working capital-intensive nature of operation with high inventory requirement, which is likely to keep the liquidity position under check. Also, GTNIL operates in an intensely competitive and commoditised spinning industry. Low product differentiation and a fragmented industry structure translate into limited pricing power and profitability. Thus, its earnings remain exposed to the volatility in cotton prices, which have constrained its contribution levels in the past.

The Stable outlook reflects ICRA's expectation that GTNIL's cash flows are expected to remain comfortable relative to its debt service obligations and the company will continue to benefit from being a part of the GTN Group.

### Key rating drivers and their description

#### Credit strengths

**Low reliance on external debt; conservative gearing level** – The company's debt profile as on September 30, 2023 comprised working capital borrowings of Rs. 3.8 crore and non-convertible redeemable preference shares (NCRPS) of Rs. 20.6 crore from the Group company, GEIL. The company has nil term loan. GTNIL's capital structure stood comfortable at 0.3 times as on September 30, 2023, marked by low reliance on external borrowings. ICRA expects GTNIL's gearing to remain conservative at less than 0.5 times over the medium term with an interest cover above 2.8 times and TOL/TNW below 0.5 times, going forward.

**Established presence in domestic market and extensive experience of promoters** – The company enjoys established presence in the domestic cotton yarn market and shares long relationship with reputed customers in the domestic and exports markets. Its promoters have extensive experience spanning more than five decades in the cotton spinning industry. Further, the ratings consider the track record of funding support from the Group company, GEIL, to meet debt obligations of GTNIL.

### Credit challenges

**Weak financial risk profile; profitability remains vulnerable to fluctuation in raw material prices** – Cotton constitutes a significant portion of the total cost of production. Thus, it remains exposed to fluctuation in the prices of cotton owing to various agro-climatic reasons and Government policies (through minimum support price). The same was reflected in the current year, with a moderation in profits owing to accumulated inventory at a higher cost. GTNIL has witnessed inventory losses in H1 FY2024, resulting in operating losses during the same period. However, with slight improvement expected in H2 FY2024, the company expects to report modest operating profits for the full fiscal. The profitability is expected to improve from the next fiscal with the rundown of the high-cost inventory by FY2024 and expected revival in demand.

**Working capital intensive nature of operations** – The operations of the company are working capital intensive in nature, reflected by NWC/OI of ~26% as of September 2023 mainly due to high inventory and debtor levels.

**Intense competition limits pricing power** – GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and a fragmented industry structure, which result in limited pricing power and profitability.

### Environmental and social risks

**Environmental considerations** - Spinning companies using natural fibres are exposed to agro-climatic risks as the quality, prices and supply of the natural raw materials (such as cotton, wool, silk etc.) depend on climatic conditions, rainfall pattern, crop infestation among others.

**Social considerations** - The social risk for the sector emanates from high labour involvement despite increasing mechanisation. The sector is exposed to risks related to labour and that of protests/social issues with local communities, which might impact expansion/modernisation plans. The entity is also exposed to the risk of operational disruption due to inability to properly manage the human capital in terms of their safety and overall well-being.

### Liquidity position: Adequate

The company's liquidity is expected to remain adequate with moderate utilisation of working capital limits, healthy cash accruals, nil repayment obligations and limited capital expenditure plans in the near term, providing comfort to the liquidity position.

### Rating sensitivities

**Positive factors** – The ratings can be upgraded if there is a healthy and sustained increase in the company's scale of operations and profits, while maintaining comfortable liquidity position and debt protection metrics. Specific metrics that could trigger an upgrade include an interest coverage above 3.5 times on a sustained basis.

**Negative factors** – Pressure on the rating may arise if there is a deterioration in the operational performance of the company and/or any weakening of linkages with the promoter group. Interest coverage below 2.8 times on a sustained basis could also be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Textiles - Spinning</a>
Parent/Group support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]A- (Stable)/A2+) and GTNIL's promoters would be willing to extend financial support to GTNIL, should there be a need. There is a track record of funding support from GEIL in the past.
Consolidation/Standalone	Standalone

## About the company

GTNIL manufactures and trades in cotton yarn and is a part of the Hyderabad-based GTN Group, which has diversified business interests ranging from textiles to engineering. GTNIL was founded by Late M. L. Patodia and at present, it is managed by Mr. M. K. Patodia. The company's shares are listed on the Indian bourses. Earlier, GTNIL had an installed capacity of 97,104 spindles across its two spinning units in Medak (Telangana) and Nagpur (Maharashtra). However, the Medak unit was sold to the Group company, GEIL, on May 1, 2022 and now the company operates with 41,856 spindles.

## Key financial indicators (audited)

GTNIL Standalone	FY2022	FY2023	H1 FY2024
Operating income	480.9	313.9	98.0
PAT	34.7	15.6	-2.9
OPBDIT/OI	17.5%	9.8%	-0.4%
PAT/OI	7.2%	5.0%	-3.0%
Total outside liabilities/Tangible net worth (times)	3.0	0.6	0.4
Total debt/OPBDIT (times)	1.1	1.0	-31.2
Interest coverage (times)	7.8	4.1	-0.2

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

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Jan 25, 2024	Nov 15, 2022	Apr 01, 2022	Aug 06, 2021	Sep 01, 2020
1	Term Loan	-	-	-	-	-	-	[ICRA]B-(Stable)
2	Fund-based limits	-	-	-	-	-	-	[ICRA]A4
3	Non-fund Based limits	-	-	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4	[ICRA]A4
4	Fund based	61.00	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Positive) withdrawn/[ICRA]A4+	[ICRA]B+(Stable)/[ICRA]A4	-
5	Unallocated limits	3.70	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short -term – Fund based limits	Simple
Long-term/ Short -term – Unallocated	Not applicable

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	<b>Fund based limits</b>	NA	NA	NA	61.00	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	<b>Unallocated</b>	NA	NA	NA	3.70	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

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

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

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