November 21, 2024

Ginza Industries Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based- Term loan	34.00	34.00	[ICRA]BBB (Negative); reaffirmed and outlook revised to Negative from Stable
Long term – Fund based - Cash credit	110.00	110.00	[ICRA]BBB (Negative); reaffirmed and outlook revised to Negative from Stable
Short term – Non fund based - Working capital limits	18.50	18.50	[ICRA]A3+; reaffirmed
Total	**162.50**	**162.50**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating of Ginza Industries Limited (GIL) considers the weaker-than-expected performance in FY2024 and expectations of a slower-than-expected recovery in FY2025. Post witnessing a healthy performance in FY2023, due to a decline in export volumes and tepid domestic demand, revenues declined by 24.2% (on a YoY basis) to Rs. 313.5 crore in FY2024. While raw material prices moderated, diseconomies led to a 36-bps contraction in operating margin to 10.5% in FY2024. Lower earnings coupled with the debt-funded capex in FY2024 for ~Rs. 47.0 crore, towards the purchase of land and knitting machines, moderated Ginza's coverage indicators in FY2024. Interest coverage and total debt/operating profit ratio moderated to 1.8 times and 5.4 times, respectively, in FY2024 compared to 2.1 times and 3.6 times, respectively, in FY2023. Further, GIL is currently constructing a 3 lakh sq. ft facility at Surat Apparel Park SEZ, for around Rs. 40 crore across FY2025 and FY2026, funded by bank debt. GIL is also planning to incur replacement/upgradation capex of ~Rs. 15 crore in FY2025.

The ratings remain constrained by the company's moderate financial profile, characterised by an elongated working capital cycle and moderate coverage indicators. While GIL's revenues and margins are expected to improve in the current fiscal with gradual recovery of demand, its coverage metrics are expected to remain moderate over the medium term due to the ongoing debt-funded capex. Further, GIL's profitability remains vulnerable to fluctuations in raw material prices and foreign currency.

Nonetheless, the ratings continue to factor in the extensive experience of GIL's promoters in the textiles industry and its established customer base. ICRA also notes that Ginza benefits from the operational efficiencies of forward integrating its weaving operations into garmenting.

Key rating drivers and their description

Credit strengths

Established presence and long relationships with customers - GIL has more than three decades of experience in the readymade garment industry. The experience of the promoters has aided in scaling up the business and catering to reputed players. Ginza is one the largest players in the warp-knit fabric segment in India. The company is also present in the apparel segment. Moreover, GIL has a reputed customer base of global retailers. Established relationships with its customers ensure repeat orders that help maintain its scale, along with moderate customer concentration risks.

Integrated nature of operations – The entity has an integrated manufacturing facility with in-house knitting, fabric processing, embroidery, and apparel manufacturing units. Thus, it offers a wide range of products like knitted fabric, innerwear, outerwear, lingerie, elastic tape, eye and hook, embroidery fabric, etc., which limit the impact of demand risks on any one product segment to an extent. While the knitting segment remains the mainstay, the increasing revenue contribution from the garment segments (innerwear, outerwear and lingerie) is likely to support the margins in the near-to-medium term. Further, it sells innerwear and lingerie in the domestic market under the SOIE brand.

Credit challenges

Moderate financial profile – GIL's financial profile is characterised by moderate leverage and coverage indicators due to high working capital requirements in the business and debt-funded capex in FY2024. Besides, lower earnings resulted in the weakening of its debt protection metrics with total debt to operating profits and interest cover ratios of 5.4 times and 1.8 times, respectively, in FY2024 compared to 3.6 times and 2.1 times, respectively, in FY2023. ICRA notes that GIL had sold land and building of its dying unit located at Gujarat Industrial Development Corporation (GIDC) for ~Rs. 26 crore (advance received in FY2023). Further, it had also sold its torchon lace unit (land & building) at Gut Nandore, Palghar for Rs. 13.6 crore (advance received in FY2024) in July 2024. Utilising these proceeds, the entity had acquired a 100% shareholding in Devika Apparels Private Limited (DAPL) at an investment of Rs. 18.1 crore in equity share capital and it has also extended loans and advances of Rs.7.4 crore. GIL is planning to merge with DAPL in FY2025.

In the land obtained from DAPL, the entity is planning to construct a 3 lakh sq ft facility. GIL has planned a debt-funded capex of Rs.53.5 crore in FY2025 and FY2026, proposed to be funded through a term debt of ~Rs. 49 crore and the balance through internal accruals. While its revenues and earnings are likely to improve in the medium term, coverage metrics are expected to remain moderate due to increased debt repayment obligations of Rs. 17.2 crore in FY2025 and Rs. 18.2 crore FY2026.

Working capital-intensive operations and exposure to volatility in raw material prices – GIL's operations are highly working capital intensive as it maintains higher inventory across the division, which results in elongated inventory holding days, increasing the working capital intensity to NWC/OI to 50.2% as on March 31, 2024, from 35.4% as on March 31, 2023. Further, its margins are exposed to volatility in prices of raw materials like synthetic yarn due to its linkages with crude oil and intense competition in the export and domestic markets, which have impacted Ginza's profitability. Nevertheless, the integrated manufacturing set-up mitigates the price risk to some extent. Further, its earnings are exposed to foreign currency fluctuations and export incentives.

Liquidity position: Adequate

GIL's liquidity position is likely to remain adequate, supported by expected improvement in cash flows from operations and buffer in working capital limits. The average utilisation of fund-based limits stood at 91.5% of the sanctioned limit (Rs. 110 crore) for the last 12 months ending in September 2024. The planned capital expenditure of Rs. 30.5 crore in FY2025 is proposed to be funded by a bank debt of ~Rs. 29 crore and internal accruals. Further, GIL is expected to generate a healthy cash flow from operations in FY2025, which is likely to support its repayment obligations of Rs. 17.2 crore in FY2025 and Rs. 18.2 crore in FY2026.

Rating sensitivities

Positive factors – The long-term rating outlook can be revised to Stable, if GIL is able to sustain growth in the scale of operations and improvement in cash accruals, leading to healthy debt protection metrics and liquidity position.

Negative factors – Pressure on the ratings may emerge, if the company is not able to improve its operating income and profitability, resulting in weaker coverage metrics and pressure on the liquidity position. The ratings could be downgraded if the interest coverage remains below 2.8 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Fabric Textiles - Apparel
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL. Details of the entities considered for consolidation have been enlisted in Annexure-2.

About the company

Ginza Industries Limited (Ginza) was incorporated in 1986 by the Sethia family, having a long experience in textile trading. The company was originally set up to manufacture warp knitted fabric, following which the company progressively integrated its line of business, both forward and backward, to include yarn manufacturing, textile processing, lingerie manufacturing, elastic tape, eye and hook manufacturing, and garmenting. In 2011, the company launched women's innerwear and apparel brand, SOIE.

Key financial indicators

GIL consolidated	FY2023	FY2024
Operating income	413.7	313.5
PAT	9.5	24.7
OPBDIT/OI	10.8%	10.5%
PAT/OI	2.3%	7.9%
Total outside liabilities/Tangible net worth (times)	1.8	1.5
Total debt/OPBDIT (times)	3.6	5.4
Interest coverage (times)	2.1	1.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

On May 19, 2023, CRISIL ratings has revised the rating to CRISIL B (Stable)/A4 and continued the ratings in the ISSUER NOT COOPERATING; Rating Withdrawn.

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs crore)	21-Nov-24	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	34.00	[ICRA]BBB (Negative)	4-Sep-23	[ICRA]BBB (Stable)	3-Feb-23	[ICRA]BBB- (Stable)	27-Jan-22	[ICRA]BBB- (Negative)
Cash Credit	Long term	110.00	[ICRA]BBB (Negative)	4-Sep-23	[ICRA]BBB (Stable)	3-Feb-23	[ICRA]BBB- (Stable)	27-Jan-22	[ICRA]BBB- (Negative)
Letter of Credit/Bank Guarantee	Short term	18.50	[ICRA]A3+	4-Sep-23	[ICRA]A3+	3-Feb-23	[ICRA]A3	27-Jan-22	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term loan	Simple
Long term – Fund based – Cash credit	Simple
Short term – Non fund based	Very 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	**Term Loan**	FY2024	NA	FY2032	34.00	[ICRA]BBB (Negative)
NA	**Cash credit**	-	NA	-	110.00	[ICRA]BBB (Negative)
NA	**Letter of Credit/ Bank Guarantee**	-	NA	-	18.50	[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

Company Name	Ownership	Consolidation Approach
Ginza Lifestyles Limited	100.0%	Full Consolidation
Devika Apparels Private Limited	100.0%	Full Consolidation
Shree Ganesh Integrated Textile Park Private Limited	31.0%	Equity method

Source: GIL

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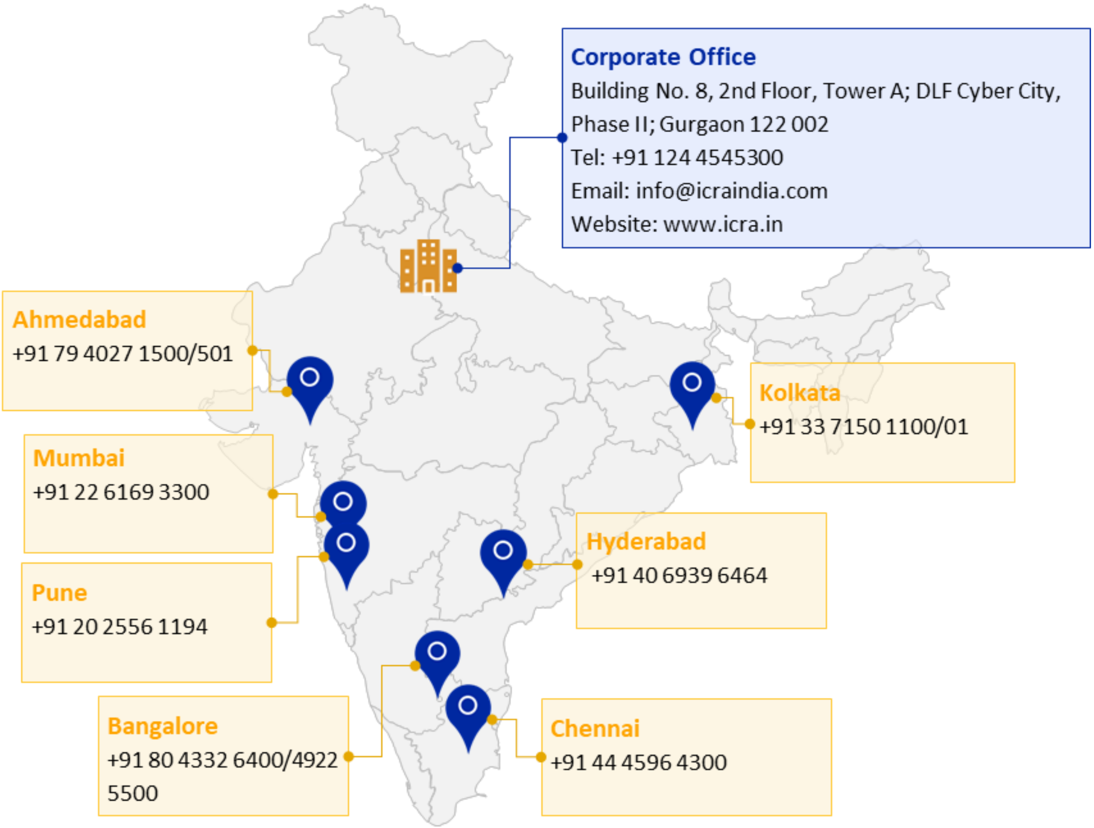

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