December 11, 2024

GTN Engineering India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based cash credit	265.16	0.00	-
Long-term/Short-term Fund-based	-	208.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Long-term fund-based term loan	56.87	3.68	[ICRA]A- (Stable); reaffirmed
Short-term non-fund based Others	36.60	6.00	[ICRA]A2+; reaffirmed
Total	**358.63**	**217.68**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has consolidated the financials of GTN Engineering India Limited (GEIL) and its Group company, GTN Industries Ltd (referred to as the GTN Group/Group).

The ratings reaffirmation of the GTN Group primarily considers its established operational track record in the engineering and textile businesses, spanning more than five decades. In the engineering division, the Group has established relationships with TechnipFMC for supplying API valve bodies, GV assembly, clad valves etc, for the past 25 years. In FY2024, the performance of the engineering division remained healthy with an annual revenue growth of ~17% and an operating margin (including non-operating income) of ~27% (~20% in FY2023). The agreement with TechnipFMC was last renewed on April 1, 2023 for the next 10 years, which provides revenue visibility. The performance of the textile business, however, remained subdued amid higher cotton prices and weak demand conditions. In FY2025, while the spread between yarn prices and cotton prices continues to remain weak, the same is expected to improve somewhat with some moderation in the cotton prices witnessed in recent months. Also, the healthy order book in the engineering division is likely to result in strong revenue along with high operating margins for the division, which is likely to offset the subdued performance of the textile division to an extent. In addition, the closure of a few loss-making divisions during the past few years will also provide some stability to the operating profit going forward. The debt protection metrics improved in FY2024 and are expected to remain comfortable in the medium term. The liquidity position remains adequate with cash and liquid investment of ~Rs. 87 crore as on March 31, 2024 and sufficient buffer available in the sanctioned working capital limits on a consolidated basis.

However, the ratings continue to be constrained by high dependence on a single client in the engineering division, TechnipFMC, which contributed ~40% to the total revenues and ~95% to the engineering division's revenue in FY2024. The company is making efforts to diversify the customer base in the engineering division by foraying into precision engineering. However, given the long-drawn approval process and the slow ramp-up of new orders, these efforts are likely to translate into a meaningful order book only over the medium term. The ratings are also constrained by the high working capital intensity, with NWC/OI of ~33% due to high inventory level to factor in the lead time for imported bought-out components for the engineering division and 60-90 days of credit extended to TechnipFMC. Further, its earnings remain exposed to the volatility in raw material prices and foreign exchange rate fluctuations, which can impact the company's contribution level.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GEIL will continue to benefit from the healthy orders from TechnipFMC, and it will be able to maintain its business positioning while sustaining the profitability levels.

Key rating drivers and their description

Credit strengths

Improved performance of engineering division – The performance of the engineering division improved on the back of increased order inflow, which contributed majorly towards the entity's profitability in FY2024. The division reported a healthy YoY revenue growth of ~17% at Rs. 401.3 crore in FY2024 and is estimated to achieve ~Rs. 450 crore in FY2025. The engineering division has been the primary revenue and margin driver in FY2024, which is expected to perform well in FY2025 with a strong established relationship with its major customers.

Established relationship with TechnipFMC – GEIL has an established relationship with TechnipFMC for supplying API valve bodies, GV assembly, clad bodies etc, under a long-term manufacturing agreement (valid until March 2033), providing revenue visibility over the long term. The valves and other products supplied by GEIL are vital for oil/ gas exploration and any defect can lead to production loss. Thus, the products go through stringent testing and approvals, which is a time-consuming process. The long acceptance period for the products acts as a deterrent for new players to enter the industry.

Extensive experience of promoter – The promoters have extensive experience and the company has an established track record in the engineering and textile business spanning over five decades. Over the period, the GTN Group has developed established relationships with reputed customers in the domestic and export markets, entailing repeat business.

Credit challenges

Weak performance in textile division impacting overall business profile – The company's earning (EBITDA) from the textile division has remained subdued at ~2% in FY2024 (~1% in FY2023), although improved on a YoY basis. The sombre performance over the past two fiscals can be primarily attributed to the higher cotton prices and weak demand, impacting the company's overall business profile. In FY2025, while the spread between yarn prices and cotton prices continues to remain weak, the same is expected to improve somewhat with some moderation in cotton prices witnessed in recent months. Also, the healthy order book in the engineering division is likely to result in strong revenue along with high operating margins for the division, which would offset the subdued performance of the textile division to an extent.

However, the debt protection metrics improved in FY2024, with interest coverage of 3.2 times and net debt/OPBDITA of 1.9 times in FY2024 compared to 2.6 times and 2.3 times, respectively, in FY2023 owing to the improved performance of the engineering division. Additionally, the debt protection metrics are expected to improve further in FY2025, with the likely increase in operating profits and anticipation of some improvement in the performance of the textile division.

High working capital intensity – The Group has a high working capital intensity, with NWC/OI of ~33% in FY2024 on a consolidated basis. This is attributed to elevated inventory maintaining requirements to factor in the lead time for imported components for the engineering division and high cotton inventory levels at year ends.

Exposure to foreign currency and raw material price fluctuations – The company is exposed to foreign currency fluctuations as it undertakes both exports and imports. Further, cotton constitutes the major portion of total production costs in the textile division. Thus, it remains exposed to fluctuation in cotton prices owing to various agro-climatic reasons and Government policies (through minimum support price). The same was reflected in FY2023 and FY2024, with a moderation in profits owing to higher cotton prices and losses resulting from forex fluctuations.

Liquidity position: Adequate

The company's liquidity position is adequate, with free cash and liquid investment of ~Rs. 87 crore on a consolidated basis as of March 2024 and a comfortable cushion available in the sanctioned working capital limits. The term loan repayment obligation in FY2024 stood at ~Rs. 14 crore, which is likely to be comfortably met through the estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade GEIL's ratings if there is a sustained improvement in scale and profitability going forward. Efficient management of working capital, strengthening its liquidity position, could also lead to a positive rating action.

Negative factors – Pressure on GEIL's ratings could arise if revenues and profitability decline significantly. Moreover, a stretch in the working capital cycle or any major debt-funded capex, weakening its liquidity position, could be a negative trigger. Net debt/OPBDITA higher than 2.3 times on a sustained basis may also prompt ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Textiles – Spinning
Parent/Group support	None
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of GTN Engineering India Limited and its Group company, GTN Industries Ltd. Details are given in Annexure-II.

About the company

GTN Engineering India Limited (erstwhile GTN Exports Ltd, renamed in March 2008) was incorporated in 1990 and is promoted by Mr. M. K. Patodia and family members, who also have an established presence in the textile business through GTN Industries Limited (rated, [ICRA]BBB-(Stable)/[ICRA]A3).

In FY2013, some textile units of the GTN Group were amalgamated with GEIL. The operations now include the engineering (42% revenue contribution in FY2024) and textile divisions (58% revenue contribution in FY2023). The textile division comprises two spinning units (with a capacity of 86,192 spindles cotton yarn) and a garment manufacturing unit (with a capacity of 12 lakh garments and 54 lakh pairs of socks per year at Imperial Garments).

Key financial indicators (audited)

	Standalone (GEIL)		Consolidated (GEIL+GTN)	
	FY2023	FY2024	FY2023	FY2024
Operating income	876.2	957.0	958.6	1122.6
PAT	1.2	48.0	17.0	42.9
OPBDIT/OI	6.1%	10.2%	8.8%	8.5%
PAT/OI	0.1%	5.0%	1.8%	3.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.7	0.8	0.7
Total debt/OPBDIT (times)	4.0	2.2	2.8	2.5
Interest coverage (times)	2.0	3.5	2.6	3.2

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: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022
				Dec 11, 2024	Sep 01, 2023	April 24, 2023	November 15,2022	October 28,2022	September 29,2021
1	Fund-based Cash Credit	Long term	0.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)
2	Fund-based	Long-term/ Short-term	208.00	**[ICRA]A-(Stable) /[ICRA]A2+**	-	-	-	-	-
3	Fund-based term loan	Long term	3.68	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)
4	Fund-based CC	Short term	0.00	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
5	Non-fund-based Others	Short term	6.00	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
6	Unallocated	Long term	0.00	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term Fund-based	Simple
Long-Term Fund-based Term Loan	Simple
Short-term Non-fund based Others	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	Long-term/Short-term Fund-based	-	-	-	208.00	[ICRA]A-(Stable)/[ICRA]A2+
NA	Long-Term Fund-based Term Loan	Dec 2015	-	Dec 2025	3.68	[ICRA]A-(Stable)
NA	Short-term Non-fund based Others	-	-	-	6.00	[ICRA]A2+

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
GTN Industries Limited	49.51%	Full Consolidation

Source: *Company*

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About ICRA Limited:

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