

September 19, 2022

G.M. Syntex Pvt. Ltd.: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+; rated amount enhanced; ratings removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term Loan	47.00	59.00	[ICRA]A-(Stable); upgraded from [ICRA]B+(Stable); ratings removed from Issuer Not Cooperating category
Short term – Non-Fund based Sub limits – Bank Guarantee/Letter of Credit	(13.00)	0.00	-
Long term/ Short term – Fund based limits – Cash Credit/Post & Pre shipment credit	25.00	99.00	[ICRA]A-(Stable)/[ICRA]A2+; upgraded from [ICRA]B+(Stable)/[ICRA]A4; ratings removed from Issuer Not Cooperating category
Total	72.00	158.00	

*Instrument details are provided in Annexure I

Rationale

ICRA has upgraded the ratings of G.M. Syntex Private Limited (GMSPL) and removed the same from the 'Issuer Not Cooperating' category based on adequate information received from the client for carrying out a detailed credit assessment.

The ratings action also factors in the significant improvement in the financial performance of GMSPL in FY2022 and ICRA's expectation that the trend is likely to continue going forward. GMSPL's operating income grew to around Rs. 543 crore in FY2022 from Rs. 240 crore in FY2021 owing to a significant increase in sales volume, primarily led by new strategic partnership with Asian Paints. The export volume also normalised in FY2022 after being severely hit in FY2021. The operating profit margin (OPM) also improved to 14.8% in FY2022 compared to 12-13% in the previous years, primarily on the back of better volumes. The coverage indicators also improved with the interest cover and total debt/OPBITDA at 7.3 times and 2.3 times, respectively in FY2022 compared to 2.9 times and 4.8 times, respectively in the previous fiscal. In FY2023, the revenue growth would continue to remain healthy, driven by the expected improvement in business from Asian paints, which would also counterbalance the likely slowdown in export volume as inflationary concerns are impacting demand in key global economies.

The ratings continue to consider GMSPL's established presence and significant experience of the promoters in the textile industry and the company's established client base, which resulted in repeat orders. In addition, with a strong track record of performance, the 'Pure' brand has an established presence and commands premium over competitors. The ratings also take into consideration well integrated operations across the textile value chain, that is, from yarn processing to supply of finished fabrics. The company has also acquired one unit in Tarapur to expand its production capacity, which would further strengthen the operating profile in the near-to-medium term.

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 28% in FY2022. The company's average working capital limit utilisation also remained high at ~80% of the sanctioned limits during the last 15 months, thus impacting liquidity. The company also has annual capital expenditure plans of Rs. 40-50 crore. While the capex would primarily be towards enhancing capacities, any large debt-funded capex is likely to impact the debt coverage indicators and would remain a key rating monitorable. 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. With a substantial share of the total revenues coming from the export markets, the company's

revenues also remained vulnerable to volatility in foreign currency exchange rates, global textile demand conditions and raw material price volatility.

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

Significant improvement in financial performance owing to partnership with Asian Paints and waning impact of the pandemic; comfortable capital structure marked by strong net worth base – GMSPL's financial performance remained healthy in FY2022 with an operating income and OPBDITA of Rs. 542.9 crore and Rs. 80.4 crore, respectively in FY2022 against Rs. 240.0 crore and Rs. 31.3 crore, respectively in FY2021, backed by the waning impact of the pandemic and a new strategic partnership with Asian Paints. The company continued to maintain a favourable capital structure, characterised by a gearing of 0.8 times as on March 31, 2022 (provisional) and Total Debt/OPBDITA of 2.3 times in FY2022 (provisional) on the back of healthy accruals and limited dependence on bank debt. In addition, the total debt comprises Rs. ~60 crore of unsecured loans from promoters, which is interest free in nature. The coverage metrics also remained healthy with an interest cover of 7.3 times in FY2022. 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.

New strategic partnership with Asian Paints gives access to wide distribution channels, resulting in higher sales volumes – ICRA notes that GMSPL has entered into a new strategic partnership with Asian Paints in FY2022 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 is expected to support the revenues of GMSPL 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. The company's operation is 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 recognition of 'Pure' brand in the domestic markets – The company primarily markets its products under the 'Pure' brand. With a strong track record of performance, the Pure brand has an established presence throughout India. The presence of a strong brand enables the company to command a premium over other competitors. ICRA also notes that owing to the strategic partnership, Asian Paints would use the brand to conduct retail sales of fabrics throughout the tenure of the partnership.

Established client relationships spanning several years – The company derives a significant portion of its revenue from export sales (around 50% of total revenues in FY2022). The company's export sales are well diversified among several countries with the United Kingdom 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. The product is promoted under the brand names, 'Pure', 'Pure Concept' and 'G.M. Syntex'. The brands enjoy moderate recognition in the local as well as international markets. The company's customer base comprises several reputed international traders and dealers. The company's strong market position and wide acceptability for its products and quality are reflected in several repeat orders from its key customers.

Credit challenges

High working capital intensity impacting liquidity – The company’s scale of operations is highly working capital intensive with working capital intensity of 28.2% as on March 31, 2022, in spite of an improvement from 49.1% as on March 31, 2021. This was primarily on account of high receivables and inventory levels required in the segment, in line with the industry requirements. The company usually maintains inventory levels for different types of yarn and semi-finished goods fabrics for faster order execution. Further, the company’s working capital limit utilisation in FY2022 continued to remain high at ~80% of the sanctioned limits.

Intense competition from domestic and global players in the branded segment particularly in curtain fabrics, however, company’s strong foothold in curtain fabrics 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 well-established domestic and international players in the branded segment, particularly in curtain fabrics. However, the company’s ability to continuously improve its products as per the current market trends and wide product offerings in innovative designs, aided by regular capex, has 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 ~50% of the revenues are derived from exports. However, partial hedging through forward contracts provides some comfort.

Liquidity position: Adequate

The company’s liquidity profile is adequate, given the cash and bank balance of Rs. ~5 crore as on March 31, 2022 and some cushion available in the form of undrawn line of credits in its working capital facilities. The average CC utilisation remained high at ~80% of the sanctioned working capital limits in FY2022. ICRA also notes the capital expenditure plans of ~Rs. 50 crore per annum in the next 2-3 years, to be funded by both internal accruals and long-term debt. Any large capex plans, constraining its liquidity position, would remain a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a significant improvement in its revenues while maintaining healthy operating profit margins, leading to an improvement in net cash accruals and liquidity position. Specific triggers for 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 significant deterioration in scale and operating margins, resulting in worsening of debt protection metrics; additionally, significant large debt funded capex impacting liquidity would also be a negative trigger. Specific triggers for downgrade will be interest coverage below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA

Consolidation/Standalone	Standalone
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About the company

Promoted by Mr. Gurbakshish Singh, G.M Syntex Private Limited (GMSPL) was incorporated in 1999 and is involved in the manufacturing of curtain fabrics, primarily catering to the premium segment of the market. The company's registered office is in Andheri, Mumbai and manufacturing facility in Tarapur, Maharashtra. The 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 stage of curtain fabrics.

Key financial indicators

Standalone	FY2021	FY2022*
Operating income (Rs. crore)	240.0	542.9
PAT (Rs. crore)	1.9	41.1
OPBDIT/OI (%)	13.1%	14.8%
PAT/OI (%)	0.8%	7.6%
Total outside liabilities/Tangible net worth (times)	1.3	1.3
Total debt/OPBDIT (times)	4.8	2.3
Interest coverage (times)	2.9	7.3

*Provisional, 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 (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Sep 19, 2022	Aug 31, 2021	Jun 25, 2020	-	
1 Term Loan	Long-term	59.00	50.67	[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]B+(Stable)/[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]BB+(Stable)/[ICRA]A4+; ISSUER NOT COOPERATING	-	

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit & PC/PCFC/PS/FOBP/FOUP	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	NA	FY2028	59.00	[ICRA]A-(Stable)
NA	Cash Credit & PC/PCFC/PS/FOBP/FOUP	NA	NA	NA	99.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company; Note: Amount in Rs. Crore

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

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

Sumit.jhunjunwala@icraindia.com

Tanmay Chhaparia

+91 33 7150 1100

Tanmay.chhaparia@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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