September 04, 2023

Ginza Industries Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan	77.92	34.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Long -term – Fund-based -Cash Credit	110.00	110.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Short -term – Non fund based-Working Capital	18.50	18.50	[ICRA]A3+; upgraded from [ICRA]A3
Total	**206.42**	**162.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade reflects an improvement in the performance of Ginza Industries Limited (GIL) in FY2023 in terms of revenues and cash accruals. GIL is expected to report a further improvement in the operating margin in the current fiscal owing to cost savings amid closure of one dyeing unit as well as lower raw material costs. The company reported a 15% revenue growth in FY2023 at ~Rs.414 crore, driven by an extensive experience of GIL's promoters in the textiles industry and its established customer base. This coupled with a healthy operating margin led to generation of healthy cash accruals of close to Rs.24 crore. Although revenues are expected to fall by around 10% in the current fiscal owing to weak export demand, the operating margins are expected to improve by 200-300 bps. GIL's cash accruals are likely to further improve in the current fiscal, partly backed by the sale of fixed assets with ~Rs.26-crore gain This coupled with the recent sanction of interest rate concession from the lead bank and reduced working capital utilisation in the recent months are expected to result in improved debt coverage metrics. Moreover, the liquidity of the company has improved with a cushion of around Rs.33 crore in fund-based limits as on July 31, 2023, supported by asset(s) sale proceeds. ICRA also notes that Ginza benefits from the operational efficiencies on the back of forward integration of its weaving operations into garmenting.

However, the ratings continue to be constrained by Ginza's vulnerability of profitability to fluctuations in raw material prices and foreign currency fluctuations. However, forex hedging mitigates the currency fluctuation risk to some extent. Further, the ratings are constrained by the company's moderate financial profile, characterised by moderate, albeit improving coverage indicators and an elongated working capital cycle, resulting in moderately high working capital utilisation.

The Stable outlook reflects ICRA's expectations that GIL would continue to benefit from the extensive experience of its promoters and will report an improvement in debt protection metrics and liquidity position, going forward.

Key rating drivers and their description

Credit strengths

Healthy improvement in performance in FY2023; operating margins to increase – The company had registered revenues of Rs.413.9 crore in FY2023 with a YoY growth of 14.6%. However, the revenues are expected to moderate in the current fiscal by ~10% due to slowdown from the export markets. Nevertheless, the company's operating margins are likely to improve in the current year, given the recent measures towards an increase in focus towards value-added products coupled with purchase of the major portion of raw materials on cash basis to avail trade discounts (supported by sale of assets). This coupled with reduction in finance costs is expected to result in improved debt coverage indicators. The company's promoters have more than three decades of experience in the readymade garment industry. The experience of the management 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. Besides knitted fabric, the company is also present in the apparel segment.

Diversified product portfolio with integrated nature of operations and established client base – Ginza has an integrated manufacturing facility with in-house knitting, fabric processing, embroidery, and apparel manufacturing units. As a result, 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. The company sells innerwear and lingerie in the domestic market under the SOIE brand. Moreover, Ginza has a reputed customer base including global retailers. The company's established relationship with its customers ensures repeat orders that help it maintain its scale along with moderate customer concentration risk.

Credit challenges

Financial profile characterised by moderate coverage indicators and low RoCE – GIL's financial profile is characterised by stretched capitalisation level because of a relatively higher debt and working capital requirements in the business. While its performance had improved in FY2023, ICRA expects GIL's debt protection metrics to remain modest, constrained by the moderate earnings. Nevertheless, same are expected to improve over the medium term owing to reduction in interest rates and lower working capital utilisation in the recent months. Further, its financial profile is characterised by a lower Return of Capital Employed (RoCE) of 11.5% in FY2023.

Working capital intensive operations and exposure to volatility in raw material prices – Ginza's operations are characterised by relatively higher working capital intensity with the net working capital-to-operating income of ~36% as on March 31, 2023 (against ~50% in FY2022) due to its business requirement of holding a large inventory and is expected to remain at a similar level. 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 kept Ginza's profitability under check. 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 has improved in the recent past on the back of its improved earnings and receipt of asset sale proceeds. Free cash and bank balances and buffer available in the working capital limits utilised together stood at Rs.33 crore as on July 31, 2023. Its average working capital utilisation in the past 12 months ending in July 2023 stood at ~80%. Further, GIL is expected to generate cash flow from operations worth Rs.20 crore in FY2024 and about Rs.30 crore over the medium term against debt repayments of Rs.14.5 crore in the current year.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is a healthy growth in volumes and profitability, leading to a sustained improvement in its 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 of the company. 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 Indian Textiles Industry – Fabric Making Indian Textiles Industry – Apparels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

Ginza Industries Limited was incorporated in 1986 by the Sethia family, which has a long experience in the textile business. 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. The company also launched women's innerwear and apparel brand, SOIE, in 2011.

Key financial indicators (audited)

GIL	FY2022	FY2023
Operating income	361.2	413.9
PAT	4.1	9.3
OPBDIT/OI	9.7%	10.7%
PAT/OI	1.1%	2.2%
Total outside liabilities/Tangible net worth (times)	2.3	1.7
Total debt/OPBDIT (times)	5.6	3.6
Interest coverage (times)	1.5	2.1

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

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. As per the press release, despite repeated attempts to engage with the management, CRISIL Ratings failed to receive any information on either the financial performance or strategic intent of Ginza. This restricts CRISIL Ratings' ability to take a forward-looking view on the entity's credit quality. CRISIL Ratings believes that rating action on Ginza is consistent with 'Assessing Information Adequacy Risk'. Based on the last available information, the rating on bank facilities of Ginza continues to be 'CRISIL B/Stable/CRISIL A4 Issuer Not Cooperating'. CRISIL Ratings has withdrawn its ratings on the bank facilities of Ginza on the request of the company and receipt of a no objection certificate from its bank. The rating action is in line with CRISIL Ratings' policy on withdrawal of its ratings on bank loans'.

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Sep 04, 2023	Feb 03, 2023	Jan 27, 2022	Dec 1, 2020	Jun 05, 2020
1	Term loans	Long term	34.00	0.00	[ICRA]BBB(Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)
2	Cash Credit	Long term	110.00	-	[ICRA]BBB(Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)
3	Letter of Credit/Bank Guarantee	Short Term	18.50	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term– Term Loan	Simple
Long -term – Fund Based	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(Stable)
NA	**Long term fund based**	-	NA	-	110.00	[ICRA]BBB(Stable)
NA	**Letter of Credit/ Bank Guarantee**	-	NA	-	18.50	[ICRA]A3+

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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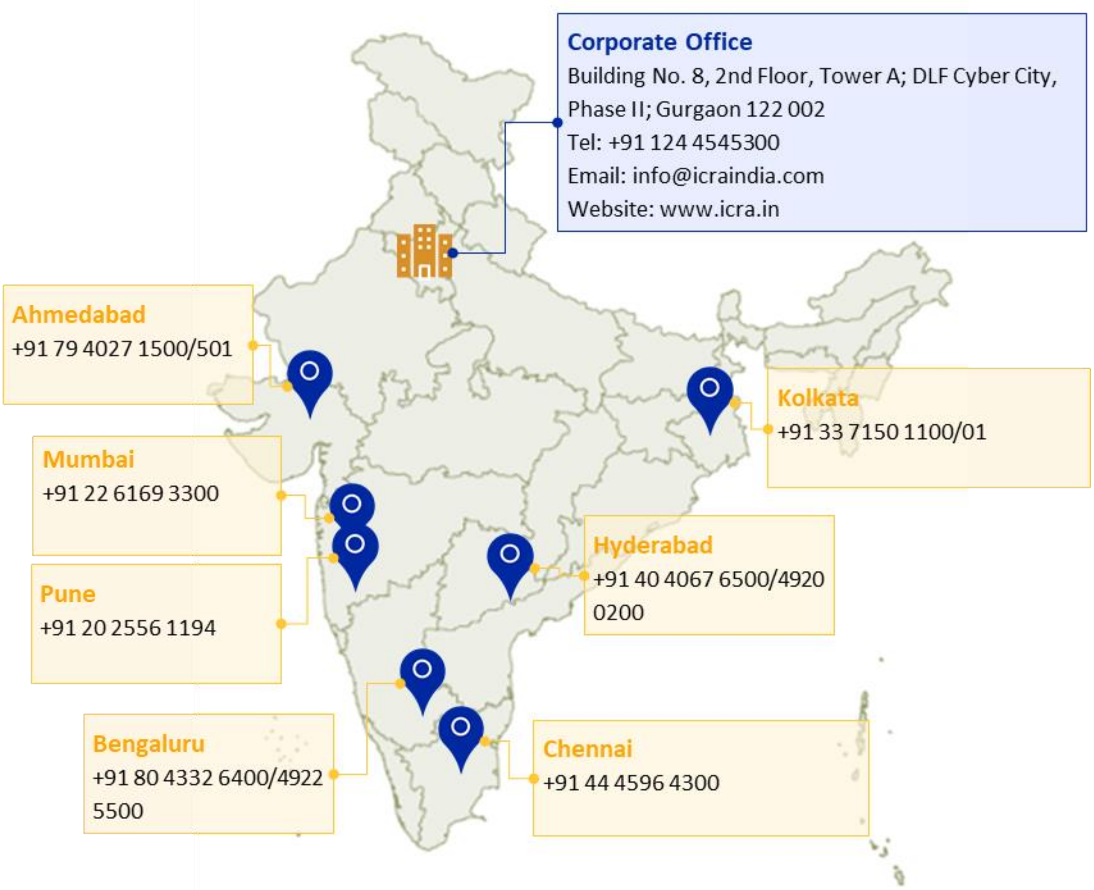

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