August 06, 2021

GTN Industries Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	44.18	0	-
Fund-based limits	87.10	0	-
Non-fund Based limits	25.60	10.65	[ICRA]A4 reaffirmed
Fund-based limits-LT/ST	0	46.80	[ICRA]B+(Stable); upgraded from [ICRA]B-(Stable);/ [ICRA]A4 reaffirmed
Total	**156.88**	**57.45**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating of GTN Industries Limited (GTNIL) primarily considers the expected improvement in its profile post implementation of the revival plan submitted by company to its lenders. As a part of this plan, the company shall monetise one unit at Medak and GTN House to its Group company GTN Engineering (India) Limited. The receipt of funds to the tune of approximately Rs. 75-80 crore is anticipated to pay off the entire term loans, as well as reduce the working capital borrowing pertaining to the Nagpur unit (Rs. 46.80 crore). In this regard, three of the bankers have already accepted the plan and GTNIL has reduced its exposure accordingly towards Term Loans and working capital of Medak Unit for two of the bankers. The debt exposure of balance two bankers is expected to be reduced shortly. Moreover, the company reported improvement in operating margins in FY2021 on account of increased contributions, which is expected to continue in the current fiscal as well. ICRA however notes that while the above plan is expected to result in improvement in financial risk profile from H2FY2022, which was severely under stress till FY2021, the cash accruals and debt-coverage indicators would remain modest at an absolute level.

Also, the working capital-intensive nature of operation with high inventory requirement is likely to keep liquidity position stretched. Also, GTNIL operates in an intensely competitive and commoditised spinning industry. The low product differentiation and 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 rating derives comfort from GTNIL's established presence in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets, along with the promoters' extensive experience of more than five decades in the cotton spinning industry. Further, the rating notes the favourable track record of funding support from the Group company, GTN Engineering India Limited (GEIL, rated [ICRA]BBB (Stable)/A3+) to meet debt obligations of GTNIL.

The Stable outlook reflects ICRA's belief that the company would benefit from the revival plan and its financial position should improve over near to medium term.

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Key rating drivers and their description

Credit strengths

Established presence in domestic market and extensive promoter experience: 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 rating takes into account the track record of funding support from the Group company, GEIL to meet debt obligations of GTNIL.

Successful implementation of revival plan expected to result in improved ratios and liquidity position: The revival plan is going to result in improved financial ratios and liquidity position for the company. The entire term loans are expected to be paid off and the working capital limits shall be reduced to Rs. 46.80 crore. This plan is likely to lead to an improvement in ratios like gearing, Debt/OPBDITA, interest coverage ratio and DSCR.

Credit challenges

Impact of Covid-19 pandemic: The spread of Covid-19 pandemic and the subsequent measures taken by the Government towards containment of the pandemic impacted the company's operations in FY2021. It reported a 10% YoY degrowth in operating income (OI) in FY2021.

Cash accruals and debt-coverage indicators to remain modest: GTNIL's financial profile remained weak characterised by net losses and high gearing till FY2021 While the operating margins remained range-bound, high interest expenses and repayment requirements negatively impacted the debt coverage indicators and liquidity position till FY2021. The company plans to reduce the total debt to the tune of Rs 46.80 crore as part of the revival plan, which is likely to improve the financial profile compared to historical levels. However, on an absolute basis, the cash accruals and debt-coverage indicators will continue to remain modest.

Intense competition limits pricing power: GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented industry structure, which results in 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.

Liquidity position: Stretched

The liquidity profile of GTNIL is **stretched** on account high utilisation of working capital limits and low cash balances. The company has maintained unencumbered cash balance of close to Rs. 3 crore as on June 30, 2021.

Rating sensitivities

Positive factors – ICRA could upgrade GTN's rating if the company demonstrates higher than expected growth in revenues and profitability on a sustained basis thereby improving the liquidity profile and coverage metrics. Interest coverage above 2 times on sustained basis could lead to an upgrade.

Negative factors – Negative pressure on rating may arise if there is a deterioration in the operational performance of the company and/or any weakening of linkages with promoter group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Impact of Parent or Group Support on an Issuer's Credit Rating] [Rating Methodology for Entities in the Textile Industry - Spinning]
Parent/Group Support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]BBB (Stable)/A3+) and GTNIL's promoters to be willing to extend financial support to GTNIL, should there be a need; there is a track record of funding support from promoter group in the past
Consolidation/Standalone	Standalone

About the company

GTN Industries Limited (GTNIL) manufactures and trades in cotton yarn and is a part of the established GTN Group, which has diversified business interests ranging from textiles to engineering. GTN was founded by the 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. GTNIL has an installed capacity of 92,400 spindles across its two spinning units at Medak, Telangana and Nagpur, Maharashtra. However, post the monetisation of the Medak unit, the capacity would be close to 42,000 spindles.

Key financial indicators (audited)

GTNIL	FY2020(A)	FY2021(A)
Operating Income (Rs. crore)	344.2	310.2
PAT (Rs. crore)	-5.5	-6.2
OPBDIT/OI (%)	5.8%	7.8%
PAT/OI (%)	-1.6%	-2.0%
Total Outside Liabilities/Tangible Net Worth (times)	4.3	4.8
Total Debt/OPBDIT (times)	8.7	7.0
Interest Coverage (times)	0.8	1.0

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 (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31,2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					August 06,2021	September 01,2020	November 15,2019	May 14,2019	September 28,2018
1	Term Loan	Long term	0	-	-	**[ICRA]B-(Stable)**	**[ICRA]B(Stable)**	**[ICRA]C**	**[ICRA]B(Positive)**
2	Fund-based limits	Short term	0	-	-	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
3	Non-fund Based limits	Short term	10.65	-	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**
4	Fund based limits-LT/ST	Long term/Short term	46.80	-	**[ICRA]B+(Stable)/[ICRA]A4**	-	-	-	-
5	Unallocated limits	Long term/Short term	-	-	-	-	**[ICRA]B(Stable)/[ICRA]A4**	**[ICRA]C/[ICRA]A4**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-based limits	Simple
Non-fund Based limits	Very Simple
Fund based limits-LT/ST	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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	-	-	-	0	-
Fund-based limits	-	-	-	0	-
Non-fund Based limits	-	-	-	10.65	[ICRA]A4
Fund based limits-LT/ST	-	-	-	46.80	[ICRA]B+(Stable)/[ICRA]A4

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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