

December 31, 2021

Gokak Textiles Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated	50.0	50.0	[ICRA]A4; reaffirmed
Total	50.0	50.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in ratings of Gokak Textiles Limited's (GTL) favourably factor in the company's strong parentage—Shapoorji Pallonji and Company Private Limited (SPCPL), rated [ICRA]BBB+&/ [ICRA]A2&. The parent provides regular financial support in the form of interest bearing unsecured loans/inter-corporate deposits (ICDs) (Rs 106.3 crore as on March 31,2021) to meet the company's funding requirements. ICRA notes that the company repaid all external borrowings in FY2020 and has no external debt in the books as on date. Consequently, GTL will remain dependent on SPCPL to meet its cash flow mismatches and other funding requirements

The ratings however remained constrained by weak operational and financial performance for the last few years, characterised by stretched liquidity, negative net worth and inadequate coverage metrics owing to a moderate level of revenues and continuous losses at the operating level. The ratings also consider the highly fragmented and competitive industry structure, which restricts pricing flexibility and exposes the company's earnings to volatility in cotton prices and foreign exchange rates.

Key rating drivers and their description

Credit strengths

Strong parentage with demonstrated track record of regular support – SPCPL, rated [ICRA]BBB+ &/[ICRA]A2&, is the holding company of GTL with ~74% stake. GTL has received funding support from SPCPL over the years, by way of preference shares (Rs.175 crore) and interest bearing unsecured loans/ICDs for servicing of debt obligations. As on March 31, 2020, GTL had outstanding unsecured loans/ICDs of Rs.106.8 crore from SPCPL on its balance sheet.

Credit challenges

Weak financial profile – GTL reported losses from operations over the years because of a moderate level of operating income in FY2021 and relatively high overheads. Though the power plant resumed operations from February 2020 after the restoration work, the company's revenue flow was significantly disrupted by subdued demand and the low average yarn realisation due to the ongoing Covid-19 situation. These factors have resulted in continued operational losses in FY2021 and H1 FY2022 and deteriorated GTL's financial risk profile.

Earnings exposed to fluctuations in cotton prices amid challenging demand scenario and intense competition – Earnings of GTL are exposed to the volatility in cotton prices. The vulnerability is further compounded by the company's limited pricing flexibility due to intense competition and lower-than-expected demand during the recent quarters.

Liquidity position: Poor

The liquidity profile of GTL remains poor as evident from negative cash flow from operations in FY2021 and modest free cash balances of ~Rs.2.34 crore as on September 30, 2021. Though there are no external debt servicing requirements, the company continues to remain dependent on ICDs/unsecured loans (Rs.106.38 crore as on March 31, 2021) from the promoter to meet the cash flow mismatches, particularly in the absence of any fund-based working capital limits available.

Rating sensitivities

Positive factors – ICRA could upgrade the company's rating if the company is able to scale up the operations with higher capacity utilisation becoming profitable at operating levels on a sustained basis.

Negative factors – Downgrade pressure on GTL could arise in case of substantial decline in revenues and profitability or stretch in working capital cycle, leading to lower-than-expected cash accruals. Any weakening in funding support or business linkages with parent adversely affecting the credit profile may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: SPCPL The rating assigned to GTL factors in the high likelihood of its parent, SPCPL, extending financial support to it because of close business linkages between them
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GTL.

About the company

GTL was incorporated in 2007, subsequent to a scheme of demerger of the textile arm of Forbes Gokak Limited (FGL) into a separate company. GTL has two units—a spinning mill at Gokak Falls (Karnataka) and a garment-manufacturing unit in Belgaum district of Karnataka. The spinning mill with a capacity of 69000 spindles and other value-added yarns apart from small volumes of readymade items such as cotton canvas and terry towels. The Belgaum unit specialises in readymade knitted garments including combed polo and T-shirts for export markets. In FY2012, the company hived off its power-generation business under a subsidiary named Gokak Power & Energy Limited (GPEL). While GTL holds 51 percent stake in GPEL, the remaining 49 percent is held by Shapoorji Pallonji Infrastructure Capital Company Private Limited. The power generated by GPEL is primarily used by GTL for its spinning unit.

Key financial indicators (audited)

GTL standalone	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	98.2	106.7	59.9
PAT (Rs. crore)	-44.6	-36.9	-16.5
OPBDIT/OI (%)	-31.4%	-18.5%	-14.4%
PAT/OI (%)	-45.4%	-34.6%	-27.5%
Total Outside Liabilities/Tangible Net Worth (times)	-5.5	-2.9	-2.4
Total Debt/OPBDIT (times)	-3.9	-7.0	-8.7
Interest Coverage (times)	-2.6	-1.5	-1.2

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 29, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 31, 2021			
1	Unallocated	Short term	50.0	NA	[ICRA]A4	Sep 24, 2020	-	Mar 8, 2019
2	Fund based bank facilities	Long-term	-	--	-	[ICRA]B+ (stable); withdrawn	-	[ICRA]B+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	NA

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 analyzing 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: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	50.0	[ICRA]A4

Source: Company

Annexure-2: List of entities considered for consolidated analysis

NA

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