November 13, 2017

Gokak Textiles Limited

Summary of rated instruments

Instruments*	Amount (Rs. crore)	Rating action
Term Loans	48.78 (revised from 9.79)	[ICRA]B+ (Stable); reaffirmed
Fund-based Working-capital Limits	44.35 (revised from 137.15)	[ICRA]B+ (Stable); reaffirmed
Unallocated Limits	73.81 (earlier nil)	[ICRA]A4; reaffirmed
Short Term Fund Based Limits	Nil (earlier 20.00)	-
Total Limits	**166.94**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 48.78-crore[1] (revised from Rs 9.79 crore) term loans and Rs. 44.35-crore (revised from Rs 137.15) fund-based working-capital facilities at [ICRA]B+ (pronounced ICRA triple B plus) [2] and short-term rating outstanding on the Rs.73.81-crore (revised from Rs. 20.00-crore) limits at [ICRA] A4 for Gokak Textiles Limited (GTL). The outlook on the long-term rating is Stable.

Rationale

The ratings remain constrained by the weak operational and financial performance of GTL in the recent quarters, characterised by de-growth in revenues and losses from operations. Volumes for GTL have remained under pressure primarily on the back of low production levels, owing to the labour unrest experienced by the company at its spinning unit, adversely impacting its capacity utilisation levels during FY2017. While the restoration of workforce has supported better utilisation levels during current fiscal, sub-optimal capacity utilisation levels have resulted in continued losses from operations and consequently further deterioration in GTL's financial profile. Financial profile is characterized by strained liquidity position, negative net-worth and inadequate coverage metrics owing to the continuous losses incurred. Thus the debt servicing for the company over the recent fiscals have been dependent on regular funding support extended by its parent - Shapoorji Pallonji and Company Private Limited (rated at ICRA AA+ (stable)/A1+). With large scheduled debt repayments and modest earnings expected during FY2018, GTL is expected to remain dependant on its parent in the near term at least. ICRA expects improvement in GTL's performance over the medium term with improving capacity utilizsation levels and savings on interest with reducing debt levels. The ratings also consider the highly fragmented industry structure with intense competition restricting pricing flexibility and exposing earnings to volatility in cotton prices and exchange rates.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

Key rating drivers

Credit strengths

- **Strong parentage with demonstrated track record of regular support -** Shapoorji Pallonji and Company Private Limited (SPCPL) rated at [ICRA]AA+ (Stable)/[ICRA]A1+, is the holding company of GTL with ~74% stake in the company. GTL has received regular funding support from the holding company over the years, by way of preference shares and loans to the tune of ˜Rs.120 crore during the period FY2013 to FY2017. Support from the group is expected to continue, as witnessed during H1 FY2018 supporting liquidity position and debt servicing for GTL.

Credit weaknesses

- **Weak financial profile –** GTL reported losses from operations, for the fourth consecutive year in FY2017, on the back of various reasons - labour unrest, low captive power generation, decline in gross contribution levels, drop in sales from the garment division etc. during the years. Continued losses resulted in deterioration of its financial profile characterized by negative net-worth position, inadequate coverage metrics and strained liquidity position. Large upcoming scheduled debt repayments and weak earnings are estimated to keep the pressure on the coverage metrics. GTL is likely to continue to depend on the parent company's support for its debt servicing in the near term.

- **Earnings exposed to fluctuation in cotton prices amid challenging demand scenario and intense competition** – Earnings of GTL remain exposed to the volatility in cotton prices as witnessed in the past, as the company has limited pricing flexibility due to intense competition and lower than expected demand during the recent quarters owing to weak export demand for cotton yarn. Further, earnings also remain exposed to currency exchange fluctuations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Indian Textiles Industry – Spinning

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 91000 spindles and 1,104 rotors produces cotton yarn 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. During FY2012, the company hived off its power-generation business under a newly-formed 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 Limited. The power generated by GPEL is primarily used by GTL for its spinning unit. At the consolidated level, spinning division has accounted for over 95% of the company's revenues.

Key Financial Indicators

	FY2016(6m)	FY2017
Operating Income (Rs. crore)	104	82
PAT (Rs. crore)	-19.8	-29.7
OPBDIT/ OI (%)	-10.94%	-26.86%
RoCE (%)	-12.52%	-11.13%
Total Debt/ TNW (times)	-35	-63
Total Debt/ OPBDIT (times)	-8.1	-9.1
Interest coverage (times)	-1.2	-1.3
NWC/ OI (%)	15.94%	31.48%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017		Month- year & Rating in FY2016	Month-year & Rating in FY2015
				November 2017	March 2017	March 2017	June 2016	July 2015
1	Term Loans	Long-term	48.78	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BB-&	[ICRA]BB- (Stable)
2	Fund-based WC limits	Long-term	44.35	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BB-&	[ICRA]BB- (Stable)
3	Unallocated limits	Short-term	73.81	[ICRA]A4	[ICRA]A4	[ICRA]D	[ICRA]A4&	[ICRA]A4

[&] *ratings under watch with developing implications*

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity	Size of the issue (Rs. Crore)	Current Rating and Outlook
Term Loans	-	-	FY2019	48.78	[ICRA]B+ (Stable)
Working Capital Facilities	-	-	-	44.35	[ICRA]B+ (Stable)
Unallocated Limits	-	-	-	73.81	[ICRA]A4

Source: GTL

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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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