Gokak Textiles Limited

March 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	48.78	0.00	[ICRA]B+ (Stable); Withdrawn
Fund-based Working Capital Limits	44.35	24.35	[ICRA]B+ (Stable); Reaffirmed
Unallocated Limits	73.81	142.59	[ICRA]A4; Reaffirmed
Total	**166.94**	**166.94**	

*Instrument details are provided in Annexure - 1

Rationale:

The ratings remain constrained by GTL's weak operational and financial performance for the last few years, characterised by strained liquidity, negative net worth and inadequate coverage metrics owing to decline in revenues and significant losses at the operating level. The company faced labour unrest at its spinning unit, which adversely impacted its capacity utilisation in FY2017. Though the restoration of workforce ensured better utilisation in FY2018 and the current fiscal, the improvement was offset by subdued demand and relatively high overheads. 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.

The ratings, however, favourably factor in the company's strong parentage—Shapoorji Pallonji and Company Private Limited (SPCPL, rated at ICRA AA&/A1+&). The parent provides regular funding support to meet the company's debt servicing obligations. The company has repaid all external long-term borrowings in FY2019 from funds infused by SPCPL. While repayment of term loans will significantly lower interest expenses, subdued demand scenario and high overheads are expected to dent the profitability indicators. Consequently, GTL will remain dependent on SPCPL to meet its debt servicing obligations.

Outlook: Stable

The outlook may be revised to Positive in case of sustained improvement in the financial risk profile characterised by healthy revenue growth and better profitability margins. The outlook may be revised to Negative in case of any further deterioration in the financial risk profile of the company.

Key rating drivers

Credit strengths

Strong parentage with demonstrated track record of regular support – SPCPL, rated [ICRA]AA&/[ICRA]A1+, is the holding company of GTL with ~74% stake in the company. GTL has received funding support from the holding company over the years, by way of preference shares (~Rs.175) and unsecured loans infused during the period FY2013 to 9M FY2019. Support from the group is expected to continue supporting liquidity position and debt servicing for GTL

Credit challenges

Weak financial profile – GTL reported losses from operations for the fifth consecutive year in FY2018. The company faced labour unrest at its spinning unit, which adversely impacted its capacity utilisation in FY2017. Though the restoration of workforce ensured better utilisation in FY2018 and the current fiscal, the improvement was offset by subdued demand and relatively high overheads and resulted in continued losses from operations and further deteriorated GTL's financial risk profile.

Earnings exposed to fluctuation 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. Further, earnings also remain exposed to currency exchange fluctuations.

Liquidity position

The company's liquidity position remains weak due to losses at the operating level and high average utilisation of working capital limits. However, the liquidity was supported by timely infusion of funds from promoters.

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	The rating is based on the standalone financial profile of the company

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. 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 Limited. The power generated by GPEL is primarily used by GTL for its spinning unit.

Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	77.6	173.0
PAT (Rs. crore)	-33.8	-37.2
OPBDIT/ OI (%)	-33.6%	-11.1%
RoCE (%)	-13.9%	-17.0%
Total Debt/ TNW (times)	4.3	5.8
Total Debt/ OPBDIT (times)	-4.3	-5.8
Interest Coverage (times)	-1.6	-1.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating In FY2018	Date & Rating in FY2017		Date & Rating in FY2016
					March 2019	November 2017	April 2017	March 2017	June 2016
1	Term Loans	Long-term	0.00	0.00	[ICRA]B+ (Stable); Withdrawn	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BB-&
2	Fund-based WC limits	Long-term	24.35	24.35	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	[ICRA]D	[ICRA]BB-&
3	Unallocated limits	Short-term	142.59	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]D	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	-	-	FY2019	0.00	[ICRA]B+ (Stable); Withdrawn
NA	Working Capital Facilities	-	-	-	24.35	[ICRA]B+ (Stable)
NA	Unallocated Limits	-	-	-	142.59	[ICRA]A4

Source: GTL

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About ICRA Limited:

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