September 25, 2020

Gokak Textiles Limited: Ratings reaffirmed; long-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Limits	24.35	0.00	[ICRA]B+ (Stable); Reaffirmed and simultaneously withdrawn
Unallocated Limits	142.59	50.00	[ICRA]A4; Reaffirmed
Total	**166.94**	**50.00**	

*Instrument details are provided in Annexure - 1

Rationale:

The reaffirmation in ratings notes Gokak Textiles Limited's (GTL) weak operational and financial performance for the last few years, characterised by stretched liquidity, negative net worth and inadequate coverage metrics owing to a decline in revenue 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.

The ratings, however, favourably factor in the company's strong parentage—Shapoorji Pallonji and Company Private Limited (SPCPL), rated [ICRA]A+ (Negative)/[ICRA]A1. The parent provides regular financial support in the form of interest bearing unsecured loans/inter-corporate deposits (ICDs) (Rs 92.72 crore as on March 31,2020) to meet the company's debt servicing obligations and other funding requirements. ICRA notes that the company repaid all external borrowings in FY2020 by utilising the funds infused by SPCPL into the company. The company's profitability indicators are likely to be supressed in the near term because of subdued demand as a result of the Covid-19 pandemic and high fixed overheads. Consequently, GTL will remain dependent on SPCPL to meet its cash flow mismatches and other funding requirements.

The long-term rating on the fund-based working capital limits of Rs.24.35 crore has been reaffirmed and simultaneously withdrawn at the request of the company based on the no dues certificates provided by its bankers, in accordance with ICRA's Policy on Withdrawal and Suspension of Credit Rating.

Key rating drivers

Credit strengths

Strong parentage with demonstrated track record of regular support – SPCPL, rated [ICRA]A+ (Negative)/[ICRA]A1, 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.92.72 crore from SPCPL on its balance sheet.

Credit challenges

Weak financial profile – GTL reported losses from operations for the seventh consecutive year in FY2020 because of a 43% decline in operating income and relatively high overheads. The company's capacity utilisation was impacted in FY2020 by unavailability of power from the captive power plant, which remained shut for ~8 months, because of waterlogging caused by heavy floods in August 2019. 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 FY2020 and Q1 FY2021 and further 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. Further, earnings also remain exposed to currency exchange fluctuations.

Liquidity position: Stretched

The liquidity profile of the company remains stretched, as evident from the negative cash flow from operations in FY2020 and the modest free cash balances of ~Rs.2.00 crore as on August 31, 2020. Though there are no external debt servicing requirements, the company continues to be dependent on ICDs/unsecured loans (Rs.92.72 crore as on March 31, 2020) from the holding company to meet the cash flow mismatches, particularly in the absence of any fund-based working capital limits.

Rating sensitivities

Positive triggers – ICRA may upgrade the company's rating if the company is able to scale up the operations with higher capacity utilisation, resulting in improved profitability and liquidity on a sustained basis

Negative triggers – Downgrade pressure on GTL could arise in case of any further deterioration in the company's financial risk profile. Moreover, any weakening in funding support or business linkages with parent adversely affecting the company's credit profile may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodology	[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.

In FY2020, the company reported a net loss of Rs.44.6 crore on an operating income (OI) of Rs.98.2 crore compared to a net loss of Rs.36.3 crore on an OI of Rs.173.0 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	173.0	98.2
PAT (Rs. crore)	-36.3	-44.6
OPBDIT/ OI (%)	-13.3%	-31.5%
PAT/OI (%)	-21.0%	-45.4%
Total Outside Liabilities/ Tangible Net Worth (times)	9.9	-5.5
Total Debt/ OPBDIT (times)	-3.9	-3.9
Interest Coverage (times)	-1.6	-2.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Sl. No.	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore) *	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					September 25, 2020	-	March 8, 2019	November 13, 2017
1	Term Loans	Long-term	-	-	-	-	[ICRA]B+ (Stable); Withdrawn	[ICRA]B+ (Stable)
2	Fund-based WC limits	Long-term	0.00	-	[ICRA]B+ (Stable); Withdrawn	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
3	Unallocated limits	Short-term	50.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4

*As on June 30, 2020

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	Working Capital Limits	-	-	-	0.00	[ICRA]B+ (Stable); Withdrawn
NA	Unallocated Limits	-	-	-	50.00	[ICRA]A4

Source: GTL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Abhilash Dash
+91 22 6169 3358
abhilash.dash@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents