

May 14, 2019

GTN Industries Limited: Ratings downgraded to [ICRA]D and simultaneously upgraded to [ICRA]C/[ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term loans	69.20	50.70	Ratings downgraded to [ICRA]D from [ICRA]B(Positive) and simultaneously upgraded to [ICRA]C
Fund-based limits	87.36	87.36	Ratings downgraded to [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]A4
Non-fund-based limits	26.20	26.20	Ratings downgraded to [ICRA]D from [ICRA]A4 and simultaneously upgraded to [ICRA]A4
Unallocated limits	-	18.50	Ratings downgraded to [ICRA]D from [ICRA]B(Positive)/[ICRA]A4 and simultaneously upgraded to [ICRA]C/[ICRA]A4
Total	182.76	182.76	

*Instrument details are provided in [Annexure-1](#)

Rationale

The downward revision in the ratings follows the irregularity in debt servicing by GTN Industries Limited (GTNIL) in the past, and ICRA has simultaneously upgraded the ratings with the subsequent regularisation of debt servicing.

The ratings consider the modest performance of GTNIL in FY2019, with weaker-than-expected earnings on the back of high cotton prices and firm operating costs. Low operating profits and high interest expenses resulted in net losses and consequent inadequate credit metrics along with tight cash flow position. Thus, the company remains dependent on external support (fund infusion by the promoter group) for managing its cash flows. GTNIL enjoys regular funding support from the promoter group (including GTN Engineering Limited, rated at [ICRA]BBB+(Positive)/A2+) through unsecured loans and redeemable preference shares. The tepid performance in the recent quarters is despite the improvement witnessed in volumes and operating efficiency in FY2019, which were aided by the capacity expansion and automation initiatives undertaken in the preceding fiscals. A diversified customer base, an established presence in the medium and finer count segment and GTNIL's long relationship with reputed customers also aided in volumes growth. The ability of the company to sustain its revenue growth and improve profitability and earnings to support its credit metrics and liquidity position would be the key rating sensitivities, going forward.

Outlook: Not applicable

Key rating drivers

Credit strengths

Established presence for being a part of the GTN Group and a diversified product range – GTNIL has been operating in the cotton yarn market for over five decades, enjoying established relationship with customers in both the domestic and exports markets. GTNIL has presence across a diversified product base, with the capability to produce yarn in a wide count range from 10s to 160s, apart from value-added facilities in the form of 100% compact, gassed and twisting capacities. The company also enjoys regular financial support from the promoters of the GTN Group and from the promoter-owned group company, GTN Engineering Limited (GEL).

Credit challenges

Weak financial profile – Leverage indicators of GTNIL remained stretched in FY2019, owing to net losses incurred and firm debt levels on the back of working capital intensive nature of operations and capital expenditure incurred in the preceding fiscals. Low earnings and high debt levels also resulted in modest coverage metrics and tight liquidity position, leading to GTNIL’s continued dependence on funding support from the promoter group to manage its cash flows and debt servicing.

Low operating margins and return indicators, limited by intense competition and high operating costs – Despite a considerable presence in the finer counts, GTNIL’s operating margins and return on capital employed have been constrained owing to its limited pricing flexibility against rising operating costs. GTNIL operates in an intensely competitive spinning industry, which coupled with the established customer base restricts its pricing flexibility. Thus, its earnings remain exposed to the volatility in cotton prices, which have adversely impacted operating profits in the past.

Liquidity position

GTNIL’s liquidity position was strained in FY2019, owing to lower-than-expected earnings from operations and high debt repayment obligations. GTNIL’s cash flows in the last fiscal were aided by funding support from the promoter group. The company is expected to have received around Rs. 35 crore in the form of unsecured loans during the said year. Utilisation of its fund-based limits stood at ~93% during the 12-month period ended March 2019. Going forward, any improvement in GTNIL’s liquidity position would remain dependent on its ability to sustain revenue growth and expand its operating profitability. However, any sustained weakness in performance could result in tight liquidity position and continued dependence on external funding support for managing its cash flows.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry – Spinning Policy on Default Recognition
Parent/Group Support	Group Company: GEL We expect GEL and GTNIL’s promoters to extend financial support to the company going forward, given the strategic importance that GTNIL holds for the GTN Group. There exists a track record of regular financial support over the years through unsecured loans and redeemable preference shares.
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

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 Late Mr. M L Patodia and at present managed by Mr. M K Patodia. The company's shares are listed on the Indian bourses and the promoters hold a 74.3% stake in the entity. GTNIL has an installed capacity of 97,584 spindles across its two spinning units at Medak, Andhra Pradesh and Nagpur, Maharashtra. Around 60% of its sales are made in the domestic market and the rest is exported to markets like Brazil, Italy, Korea and Turkey among others.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	283.8	295.5
PAT (Rs. crore)	-6.5	-6.2
OPBDIT/OI (%)	6.8%	6.3%
RoCE (%)	6.8%	7.2%
Total Debt/TNW (times)	11.3	7.1
Total Debt/OPBDIT (times)	7.7	9.9
Interest coverage (times)	1.1	0.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 Sep 2018	Date & Rating in FY2018 Sep 2017	Date & Rating in FY2017 Jul 2016	
1	Term loans	Long Term	50.70	50.70*	[ICRA]C	[ICRA]B (Positive)	[ICRA]B (Stable)	[ICRA]B (Stable)
2	Fund-based	Short Term	87.36		[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
3	Non-fund-based	Short Term	26.20		[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
4	Unallocated limits	Long term/ Short term	18.50	-	[ICRA]C/A4	-	[ICRA]B (Stable)/ [ICRA]A4	-

Source: GTN Industries Limited; * As on March 31, 2019

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	Ranging from FY2009 to FY2017	-	Ranging from FY2021 to FY2024	50.70	[ICRA]C
Na	Working capital facilities (CC/EFC/PCFC)	-	-	-	87.36	[ICRA]A4
NA	Letter of credit/Bank guarantee	-	-	-	26.20	[ICRA]A4
NA	Unallocated Limits	-	-	-	18.50	[ICRA]C/A4

Source: GTN Industries Limited

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