

November 15, 2019

## GTN Industries Limited: Long-term rating upgraded to [ICRA]B(Stable); Short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	50.70	50.70	[ICRA]B (Stable); Long-term rating upgraded from [ICRA]C
Fund-based limits	87.36	87.36	[ICRA]A4; reaffirmed
Non-fund based limits	26.20	26.20	[ICRA]A4; reaffirmed
Unallocated Limits	18.50	18.50	[ICRA]B (Stable)/A4; Long-term rating is upgraded from [ICRA]C and short-term rating is reaffirmed
<b>Total</b>	<b>182.76</b>	<b>182.76</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in long-term rating is on account of healthy increase in GTN Industries Limited's (GTNIL) operating income (OI) by 21% in FY2019 after muted growth during FY2017-FY2018, expected improvement in debt coverage indicators with decline in the term loan repayment obligations from FY2020 onwards. The rating favorably takes into account the consistent track record of funding support from the group company, GTN Engineering India Limited (rated at [ICRA]BBB+(Positive)/A2+) to meet debt obligations through issue of redeemable preference shares and unsecured loans. The ratings consider the established presence of the company in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets and extensive promoter experience of more than five decades in the cotton spinning industry.

The ratings, however, remain constrained by GTNIL's weak financial profile characterized by net losses and high gearing. Also, the inherent high working capital intensive nature of the business and high repayment obligations have resulted in weak liquidity position, leading to continued dependence on funding support from promoters to support its cash flows. Further, GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented industry structure, which results in limited pricing power and profitability. Thus, the earnings of spinners remain exposed to the volatility in cotton prices, which have constrained contribution levels in the past. ICRA notes the negative demand outlook for Indian cotton spinning industry as weak export market demand and uncompetitive cotton prices continue to take a toll on financial performance of cotton spinning companies.

### Key rating drivers

#### Credit strengths

**Established presence in domestic market and extensive promoter experience** – The established presence of the company in the domestic cotton yarn market, its long relationship with reputed customers in the domestic and exports markets and extensive promoter experience of more than five decades in the cotton spinning industry. The rating

favorably takes into account the consistent track record of funding support from the group company, GTN Engineering India Limited to meet debt obligations of GTNIL.

## Credit challenges

**Weak financial profile** – GTNIL’s financial profile remains weak characterized by net losses and high gearing. Also, the inherent high working capital intensive nature of the business and high repayment obligations have resulted in weak liquidity position, leading to continued dependence on funding support from promoters to support its cash flows. However, debt coverage indicators are expected to improve with decline in the term loan repayment obligations from FY2020 onwards.

**Intense competition limits pricing power** – GTNIL operates in an intensely competitive and commoditised spinning industry, characterised by low product differentiation and fragmented industry structure, which results in limited pricing power and profitability. Thus, the earnings of spinners remain exposed to the volatility in cotton prices, which have constrained contribution levels in the past.

**Negative industry outlook** – ICRA notes the negative demand outlook for Indian cotton spinning industry as weak export market demand and uncompetitive cotton prices continue to take a toll on financial performance of cotton spinning companies. ICRA expects a healthy recovery of 12-14% in India’s cotton output in CY2020.

## Liquidity position

The liquidity position of the company is poor on account inadequate cash flow from operations and high debt obligations of Rs. 11.6 crore in FY2020 thereby necessitating dependence on support from promoter group. The average fund based utilisation is high at 92% during the twelve month period ending September 2019.

## Rating sensitivities

**Positive triggers** – If DSCR remains above 1.0x times on a sustained basis.

**Negative triggers** – Any deterioration in the operational performance of the company than expected and/or any weakening of linkages with promoter group and/or any delay in receiving support from the group company to repay the debt obligations.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Textile Industry - Spinning</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Group Company: GTN Engineering India Limited (GEIL) The ratings factor in ICRA's expectation that GEIL (rated [ICRA]BBB+ (Positive)/A2+) and GTNIL's promoters to be willing to extend financial support to GTNIL, should there be a need. There is a track record of funding support from promoter group in the past.
Consolidation/Standalone	Standalone

## 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, Telangana and Nagpur, Maharashtra. Around 60% of its sales are made in the domestic market and the rest is exported to markets like Bangladesh, Italy, Japan and Turkey among others.

## Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	295.5	356.
PAT (Rs. crore)	-6.2	-8.4
OPBDIT/OI (%)	6.3%	5.0%
RoCE (%)	7.6%	4.2%
Total Outside Liabilities/Tangible Net Worth (times)	3.6	3.9
Total Debt/OPBDIT (times)	9.9	10.1
Interest Coverage (times)	0.8	0.8
DSCR	0.6	0.4

Source: GTN Industries Limited

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017	
					15-November-2019	14-May-2019	28-September-2018	5-September-2017	26-July-2016	
1	Term Loan	Long Term	50.70	50.70	[ICRA]B (Stable)	[ICRA]C	[ICRA]B (Positive)	[ICRA]B (Stable)	[ICRA]B (Stable)	
2	Fund-based	Short Term	87.36	87.36	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
3	Non-Fund based	Short Term	26.20	26.20	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	
4	Unallocated Limits	Long Term/Short Term	18.50	18.50	[ICRA]B (Stable)/[ICRA]A4	[ICRA]C/[ICRA]A4	-	[ICRA]B (Stable)/[ICRA]A4	-	

### 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](http://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 Loan	March 2017	12.00%	March 2023	50.70	[ICRA]B (Stable)
NA	Working capital facilities	-	11.32%	-	87.36	[ICRA]A4
NA	Letter of credit/ Bank Guarantee	-	-	-	26.20	[ICRA]A4
NA	Unallocated Limits				18.50	[ICRA]B (Stable)/ [ICRA]A4

Source: GTN Industries Limited

## Annexure-2: List of companies considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Abhishek Lahoti**

+91 40 4067 6534

[abhishek.lahoti@icraindia.com](mailto:abhishek.lahoti@icraindia.com)

**Rajeshwar Burla**

+91 40 4067 6527

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Shubham Jain**

+91 124 4545306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto: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](http://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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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, 2019 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](http://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