

February 24, 2020

Gururamdas Knit Fab: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based	5.30	5.30	[ICRA]B(Stable); Reaffirmed
Unallocated Amount	2.55	2.55	[ICRA]B(Stable)/[ICRA]A4; Reaffirmed
Total	7.85	7.85	

*Instrument details are provided in Annexure 1

Rationale

The reaffirmation of ratings continues to be constrained by Gururamdas Knit Fab's (GKF) small scale of operations, and its high working capital intensity as a result of the stretched receivables position as on March 31, 2019. Consequently, its working capital utilisation has been high over the past 12 months, and the capital structure has remained leveraged with a gearing of 1.38 times as on March 31, 2019. The ratings also take into account the highly fragmented and competitive nature of the textile industry due to a large number of players in the organised and unorganised segments, and the susceptibility of profit margins to adverse movements in prices of the key raw material — polyester yarn.

The ratings, however, continue to favourably factor in the promoters' experience in the textile industry, and the location advantages it enjoys due to its presence in Surat (Gujarat) which provides easy access to key raw materials and a ready client base.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the textile industry – Gururamdas Knit Fab was established in 2015, and it commenced the manufacturing operations in January 2017. The operations of the firm are managed by Mr. Gaurav Juneja, Mr. Sunil Juneja and Mrs. Neha Juneja who, collectively, have an experience of more than two decades in the textile business.

Location advantage ensuing from proximity to raw material sources and customers – GKF fulfils the majority of its raw material (yarn) requirements from the Surat market, which is a textile hub. The firm's presence in the Surat market also gives it access to a large and easily reachable customer base.

Credit challenges

Small scale of operations – With six knitting machines and two warping machines, the firm manufactures polyester knitted fabrics with an annual installed capacity of 2100 metric tonnes (MT). Even though the revenue increased by around 67% in FY2019, the scale of operations remains small at Rs. 19.74 crore in FY2019 (Rs. 11.80 crore in FY2018).

High receivables as on March 31, 2019, and high working capital utilisation – GKF's receivables were stretched over the past year owing to a delay in receipt of payment from customers. It used to provide a credit of 30-60 days to its

customers, which increased to a maximum of 90-100 days in FY2019. This trend continued in the current financial year, resulting in a delay in payment to its suppliers. Consequently, the liquidity was stretched, which reflected in an almost full utilisation of the working capital facilities from the bank in the 12-month period ended December 2019.

Leveraged capital structure – The firm has a leveraged capital structure with a gearing of 1.13 times as on October 31, 2019 (1.38 times as on March 31, 2019), primarily from availing the term loan for setting up the manufacturing unit. GKF’s debt profile as on March 31, 2019 consists of working capital debt of Rs. 1.98 crore, term loan of Rs. 3.03 crore and unsecured loans of Rs. 0.15 crore.

Profitability susceptible to adverse movement in prices of yarn – Since a significant portion of the raw materials used by the firm is made up of crude oil derivatives, the firm’s profitability remains exposed to the movement in raw material prices. Price of fully drawn yarn (FDY) is directly linked to the prices of monoethylene glycol (MEG) and pure terephthalic acid (PTA) which, in turn, are dependent on crude oil prices.

Intense competition in highly fragmented industry because of numerous unorganised players – The polyester fabrics segment is dominated by a number of large as well as small-scale players. A high degree of fragmentation results in intense competition in the textile industry, thereby limiting the pricing power of the textile manufacturing companies and affecting the margins. However, the firm benefits from its plant’s location in Surat, which is the largest producer as well as the consumer of manmade fibre-based products in the country.

Liquidity position: Poor

GKF’s liquidity profile has remained **poor** with stretched receivables in the last two years and low cash accruals. Also, there has been a negligible cash balance on the books as on March 31, 2019. Further, the average utilisation of the working capital stood high at 99% during the 12-month period ended in December 2019. To bridge the liquidity gap, the partners had to infuse capital of Rs. 0.90 crore and Rs. 0.28 crore in FY2019 and 7M FY2020, respectively. The firm has repayment obligations of Rs. 0.89 crore each for FY2020 and FY2021, while that for FY2022 is Rs. 0.36 crore. The liquidity is expected to remain tight, going forward; hence, further infusion of capital or unsecured loans by the partners will remain crucial to support the liquidity.

Rating sensitivities

Positive triggers – ICRA could upgrade GKF’s ratings if the firm demonstrates consistent growth in revenue coupled with higher profits on a sustained basis. Improved liquidity will also be a positive factor for a rating upgrade.

Negative triggers – Negative pressure on the rating could arise if there is any moderation in the company’s revenues and/or its profitability.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Indian Textiles Industry-Fabric
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Gururamdas Knit Fab is a partnership firm established in April 2015, and it manufactures polyester knitted fabrics in its unit in Sachin, near Surat (Gujarat). The commercial production commenced from January 2017 and the current production capacity is 2100 metric tonnes per annum. The main product of the firm is plain knitted fabrics. At present, the firm caters to the garment and furnishing industry in Surat, where it has its registered office.

GKF recorded a net profit of Rs. 0.16 crore on an OI of Rs. 19.74 crore in FY2019; while, as per the provisional numbers, it recorded a net profit of Rs. 0.13 crore on an OI of Rs. 16.24 crore in the 7-month period ended in October 31, 2019.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income	11.80	19.74
PAT	0.09	0.16
OPBDITA/ OI (%)	14.02%	8.12%
RoCE (%)	9.76%	11.12%
Total Debt/ TNW (times)	1.71	1.38
Total Debt/ OPBDITA (times)	2.79	3.22
Interest Coverage (times)	2.24	2.15
DSCR	1.06	1.00

Amounts in Rs. crore

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital employed;

TNW: Tangible Net Worth, DSCR: Debt Service Coverage Ratio

Source: Financial statements of GKF and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years				
		Type	Amount Rated	Amount Outstanding	Rating		Date & Rating in FY2019		Date & Rating in FY2018 Nov-15- 2017	Date & Rating in FY2017 Mar-14-2017
					Feb-24-2020	Apr-1-2019	Dec-12-2018	Sep-27-2018		
1	Term Loan	Long-term	3.30	2.42	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable)
2	Cash Credit	Long-term	2.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable) ISSUER NOT COOPERATING	[ICRA]B (Stable)
3	Unallocated Amount	Long-term and Short-term	2.55	-	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B (Stable)/ [ICRA]A4	[ICRA]B (Stable)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B (Stable)/ [ICRA]A4 ISSUER NOT COOPERATING	[ICRA]B (Stable)/ [ICRA]A4

Amount in Rs. crore

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	Current Rating and Outlook
-	Term Loan	September 2015	10.50%	August 2022	3.30	[ICRA]B(Stable)
-	Cash Credit	September 2015	10.50%	-	2.00	[ICRA]B(Stable)
-	Unallocated Amount	-	-	-	2.55	[ICRA]B(Stable)/ [ICRA]A4

Amount in Rs. crore

Source: Gururamdas Knit Fab

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