Ginni Filaments Limited

August 18, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	234.13 (Reduced from 244.83)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	62.17	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	**296.30 (Rs. Two Hundred Ninety-Six Crore and Thirty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Ginni Filaments Limited (GFL) takes into overall improvement in debt coverage metrics and profitability during FY21 and Q1FY22. The ratings continue to derive strength from its experienced promoters and their long track record of operations, its integrated operations and diversified product profile, established relationships with clients and distribution network and improvement in financial risk profile. These rating strengths are however partially offset by susceptibility of its profitability margins to volatility in raw material prices, foreign exchange rate fluctuation and competition.

Rating Sensitivities

Positive Factors

- Improvement in profitability margins marked by PBILDT margin exceeding 12% on sustained basis
- Reduction in gross working capital cycle days to below 100 days

Negative Factors

- Deterioration in the PBILDT margin below 7% on sustained basis
- Deterioration in the capital structure as marked by overall gearing ratio above 1.80x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & long track record of operations: GFL has been promoted by Dr. Rajaram Jaipuria and his son, Mr. Shishir Jaipuria. Dr. Jaipuria has a Doctorate degree in Economics and has been associated with the textile industry for more than 55 years. Mr. Shishir Jaipuria (B. Com, LLB) has an experience of more than 30 years in the textiles industry. Furthermore, GFL has a long track record of operations, as the company has been operational since 1982. The company commenced its business with an installed capacity of 26,208 spindles. With subsequent capacity enhancements over the years, the company has been able to increase its scale of operations.

Improvement in financial risk profile: In FY21, the total operating income of the company moderated to Rs.779.63 crore (PY: Rs.790.63 crore) as the textile units at Kosi & Noida were closed during COVID from March 25, 2020 to May 08, 2020. However, GFL has been reporting q-o-q improvement in its operating income and profitability from Q2FY21. PBILDT margin of the company improved by 654 bps to 14.35% (PY: 7.81%) in FY21 due to increase in the prices of yarn which was more than the increase in prices of cotton (raw material) leading to better spread and increase in demand of alcoholic wet wipes due to COVID-19. During FY21, the company reported net profit of Rs.41.30 crore (PY: Rs.5.70 crore). The capital structure of the company also improved with overall gearing of 0.97x as on March 31, 2021 from 1.68x as on March 31, 2020 due to lower utilization of working capital limits as the company is generating sufficient cash accruals resulting from improved profitability. The company has achieved total operating income of Rs.218.13 crore in Q1FY22 (Q1FY21: Rs.128.81 crore).

Integrated operations (Spinning, Fabric, Non-Woven, Garments and Wipes) and diversified product mix: The operations of GFL are integrated with the company providing a complete range of products to its customers which includes products like combed cotton yarn, open end cotton yarn, knitted fabrics, baby wipes, facial wipes, kitchen wipes, processed fabrics and garments. During FY21, GFL derived around 42% (PY: 45%) of its TOI from yarn, around 28% (PY: 24%) from non-woven, around 11% (PY: 12%) from fabrics, around 15% (PY: 10%) of its TOI from wipes & other products and around 5% (PY: 8%) of its TOI from garments leading to a diversified product mix.

Established relationship with clients and distribution network: Over the years GFL has established strong relationships with customers. The company exports yarns, garments and wet wipes to countries like Korea, Bangladesh, Dubai, UK, USA, and Turkey. GFL has marketing offices in India to cater to the diversified client base. The customer base is diversified with top five customers contributed only 22% to the total income of GFL during FY21.

Key Rating Weaknesses

Susceptibility to foreign exchange rate fluctuations: As substantial portion of GFL's income is generated through the export market (FY21: 30% of sales; PY: 29%), thereby the company is exposed to foreign exchange fluctuation risk. However, GFL has some amount of natural hedge due to minimal (around 15-20%) imports of raw material. Though the company hedges the risk through forward contracts GFL continues to remain exposed to currency fluctuation risk. In FY21, the net gain of the company on account of exchange rate fluctuation is Rs.0.12 crore (PY: Rs.0.01 crore).

Volatility in the raw material prices: GFL derives majority of income from the sale of cotton yarn (FY21: 42% of sales) and rest through fabrics, garments, nonwoven fabric and wipes. The basic raw material for production of yarn is cotton. Cotton prices, which are dependent on the government policies, effect of monsoon etc. have been highly volatile in the past few years. Further, the ability to transfer the volatility in raw material prices is limited on account of the low bargaining power of the companies with its suppliers as well as its customers, as the prices of both raw materials and finished goods are dependent upon the market conditions. Apart from cotton, the raw materials used by GFL for manufacturing its products are polyester, viscose and yarns. The polyester and viscose prices are related to crude oil prices, which are dependent upon the global economic scenario. Furthermore, yarn being a commodity its price is also volatile and movement in yarn prices can also have an impact on the profitability margins of GFL's fabric and garment verticals.

Competition: In the yarn and garment segment, the company faces competition from China, Bangladesh and other cheap export-based countries, which sell yarns and garments at competitive rates compared to India. Indian apparel exporters face competition from Bangladesh on account of low wages and duty-free access to around 37 countries including EU nations. Indian apparel exports are still expected to be guided by development in USA and EU economies. Further, decreasing cost competitiveness of China is likely to give positive impetus to Indian textile exporters. Availability of skilled manpower and raw material like cotton, polyester and viscose puts India in a favourable position vis-à-vis other country.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.2.29 crore as on March 31, 2021. GFL had generated cash accruals of Rs.63.63 crore in FY21 against repayment obligation of Rs.17.59 crore in FY22. Working capital limits are utilized to the extent of 67% for past 12 months ending March 31, 2021, supported by above unity current ratio. The company provides a credit period of around 45-51 days to its customers. However, the company gets credit period of around 20-30 days from its suppliers and generally maintains an inventory of 80-100 days.

Industry Outlook

The cotton yarn production which declined sharply on a y-o-y basis during the period April-June 2020 due to Covid-19 induced lockdown witnessed an improvement in the following months as the pace of fall narrowed down and saw its production increase during September-November 2020 backed by easing of lockdown restrictions and a traction in demand from cotton yarn export market. The recovery in cotton yarn exports was faster compared to its production as outbound shipments increased m-o-m in H2FY21. The rise in cotton yarn exports was mainly driven by a surge in outbound shipments to Bangladesh backed by duty draw back incentive in Bangladesh. International demand for cotton yarn is expected to stay stable backed by an increase in economic activities with the launch of Covid-19 vaccination drive in various parts of the world, it remains to be seen if Bangladesh continues to import significant quantity of cotton yarn from India.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for Short-term Instruments]
[Rating Methodology for Cotton Textile Manufacturing]
[CARE's methodology for financial ratios (Non-Financial Sector]
[Liquidity Analysis of Non-financial sector entities]

About the Company

Incorporated in 1982 as an Export Oriented Unit (EOU), Ginni Filaments Limited (GFL) is an integrated textile player offering comprehensive range of Yarns, Fabrics, Garments, Non-woven fabrics. GFL was promoted by Dr. Rajaram Jaipuria and subsequently taken over by his son Mr. Shishir Jaipuria who has an overall experience of 34 years in textile industry.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	790.63	779.63
PBILDT	61.74	111.89
PAT	5.70	41.30
Overall gearing (times)	1.68	0.97
Interest Coverage	1.87	4.13

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	207.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC	-	-	-	62.17	CARE A3+
Fund-based - LT-Term Loan	-	-	March 2024	27.13	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	207.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BBB-; Stable (03-Oct-19)	1)CARE BBB-; Stable (03-Oct-18) 2)CARE BBB-; Stable (03-Apr-18)
2.	Non-fund-based - ST-BG/LC	ST	62.17	CARE A3+	-	1)CARE A3 (07-Sep-20)	1)CARE A3 (03-Oct-19)	1)CARE A3 (03-Oct-18) 2)CARE A3 (03-Apr-18)
3.	Fund-based - LT-Term Loan	LT	27.13	CARE BBB; Stable	-	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BBB-; Stable (03-Oct-19)	1)CARE BBB-; Stable (03-Oct-18) 2)CARE BBB-; Stable (03-Apr-18)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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