GHCL Textiles Limited

June 02, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	78.74	CARE A-; Stable	Assigned
Long-term/ Short-term bank facilities	500.00	CARE A-; Stable/ CARE A2+	Assigned
Short-term bank facilities	100.00	CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of GHCL Textiles Limited (GTL) derive strength from experience of its promoters in the textile industry. GHCL Limited (GHCL; rated 'CARE AA-; Stable/ CARE A1+'), one of the largest players in the domestic soda ash industry started yarn division in 2002 which was de-merged into GTL w.e.f. April 01, 2023. The long and established track record of the erstwhile yarn division of GHCL, its reputed and diversified clientele, high operating efficiency with healthy capacity utilisation and growing share of captive power consumption from renewable sources further underpin GTL's ratings. The ratings also favourably factor GTL's strong net worth base and strong liquidity.

The ratings are, however, tempered by moderation in profitability of yarn business leading to moderation in return indicator marked by return on capital employed (ROCE) of 2% in FY23. Despite expected improvement in the PBILDT margin, ROCE is expected to remain low in the near to medium term. The ratings also remain constrained on account of susceptibility of its profitability to volatility in raw material prices and foreign exchange rate fluctuations and its presence in the cyclical and fragmented textile industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the PBILDT margin to around 14% leading to improvement in its ROCE.

Negative factors

- Deterioration in its total debt/PBILDT beyond 2.5x on a sustained basis.
- Significant elongation in its operating cycle thereby adversely impacting its liquidity.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that GTL will continue to maintain its high operating efficiency, comfortable capital structure and debt coverage indicators.

Key strengths

Experience of promoters in the textile industry

Rajappan Balakrishnan, CEO, has done diploma in textile technology with total work experience of nearly four decades in the industry. He looks after the overall operations of the company. V Gaurav, CFO, is a Chartered Accountant with total work experience of 11 years and looks after the finance function. Moreover, Ravi Shanker Jalan (MD of GHCL) and Raman Chopra (CEO & Executive Director-Finance, GHCL) are the directors of GTL who have been facilitating healthy and steady growth of operations. The in-house team of GTL also consists of experienced professionals who have guided the yarn business successfully through various economic cycles.

Long and established track record of operations

GHCL's erstwhile yarn division (presently GTL) has a track record of over two decades in the textile industry. Over the years, the company has expanded its operations to include open-end yarns, ring-spun yarns, blended yarns and fabrics. It has capacity of 225,000 ring spindles and 3,320 rotors with a balanced mix of cotton and synthetic yarn in its portfolio. Manufacturing infrastructure was established with machineries from reputed suppliers, i.e., Rieter (Switzerland), Schlafhorst (Germany), Savio (Italy), Murata (Japan), Trueztschler (Germany), etc.

Reputed and diversified customer base

Over the years, the company has refined its product and customer base with increase in the share of high value-added yarn in its total sales. The customer base of yarn business is diversified with the top 10 customers accounting for 43% of its total income in FY23 (P.Y.: 38%). The customer base includes reputed companies like Raymond Limited (rated 'CARE AA- (RWD)/

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

CARE A1+ (RWD)'), Arvind Limited (rated 'CARE AA-; Stable/ CARE A1+'), Indo Count Industries Limited (ICIL, rated 'CARE AA-; Stable/ CARE A1+'), Shahi Exports Private Limited, etc. The company enjoys a good relationship with these customers and receives repeat orders from them. Hence, GTL is expected to maintain customer diversification in the medium term. GTL has also increased its focus on geographical diversification and has witnessed growth in its export revenue over the past two years ended FY23. The company earned around 13% of its revenue from export market during FY23 as compared with 6% in FY21.

High operating efficiency with healthy capacity utilisation and growing share of captive power consumption
GTL has operated its installed capacity at over 90% in the past two years ended FY23. During FY23, the company increased production of synthetic blend yarn by 15-20% amidst rising cotton price and decline in export demand thereby maintaining optimum utilisation of capacities.
Moreover, GTL has an installed capacity of 25.2 MW of windmill power plant and 22.0 MW solar power plant (excluding on-going development of 10 MW) for captive consumption which reduces the average power cost. GTL also receives power from hybrid power plant at cheaper rate and through group captive power project. During FY23, captive power consumption stood at around 70% of power requirements of yarn business as against 54% in FY22.

Healthy financial performance albeit moderation during FY23
The revenue from yarn business grew at a compounded annual growth rate (CAGR) of around 19% during FY18-FY23. Moreover, gradual increase in the share of high value-added yarn and consumption of captive power has aided profitability margin over the years. Furthermore, with strong export demand, yarn manufacturers witnessed significant improvement in the average sales realisation and in turn registered all-time high profitability in FY22.
During FY23, the revenue of yarn business grew by 12% on a y-o-y basis largely due to an increase in the average sales realisation of yarn backed by an increase in cotton price. However, during FY23, cotton yarn spread declined significantly on y-o-y basis amidst muted export demand from China and Bangladesh and high cotton prices in the domestic market which coupled with inventory loss of around ₹36 crore resulted into decline in PBILDT margin of yarn business from 27.59% in FY22 to 6.48% in FY23.

Comfortable capital structure and debt coverage indicators
GTL had a strong net worth base of around ₹1,350 crore as on April 01, 2023. The company has a comfortable capital structure marked by overall gearing and total outside liabilities (TOL)/tangible net worth (TNW) ratio of 0.06x and 0.10x, respectively, as on April 01, 2023. The capital structure is expected to remain comfortable in the absence of any debt-funded capex along with scheduled repayment of term debt.
The debt coverage indicators of yarn business marked by interest coverage and total debt/PBILDT remained comfortable in FY23 at 9.16x (PY: 20.83x) and 1.17x (PY: 0.89x), respectively.

Liquidity: Strong
GTL has strong liquidity marked by the expectation of healthy cash accruals against low term debt repayment obligations. The company is envisaged to earn cash accruals of around ₹100-150 crore during FY24-FY26 per annum, which is expected to be adequate for meeting its capex funding requirements apart from its annual term debt repayment obligation of around ₹10-25 crore. Its undrawn fund-based working capital limit of ₹300 crore, cash and bank balance of ₹37 crore along with current ratio of 6.30x as on April 01, 2023, provides cushion to its liquidity and is expected to be more than adequate to meet its incremental working capital needs over the next more than one year.

Key weaknesses
Low rerun indicator
With significant decline in operating profitability margin, return indicator marked by ROCE remained low at 2% in FY23 (FY22: 21%). Moreover, despite expected improvement in the operating profitability, CARE Ratings expects the ROCE to remain 6%-10% in the medium term.

Susceptibility to volatility in the raw material prices and foreign exchange rate fluctuations
The basic raw material consumed by GTL to produce yarn is raw cotton, which accounts for 50%-55% of the total cost of production. The prices of raw cotton are volatile in nature and depends upon factors like area under production, yield for the year, vagaries of the monsoon, international demand-supply scenario, inventory carry forward from the previous year and minimum support price (MSP) decided by the government. The prices of raw cotton have been volatile over the last couple of years, which translates into risk of inventory losses for the industry players; albeit at times it also leads to inventory gains. Collectively, these factors along with intense competition in the industry contribute to low bargaining power of yarn manufacturers and volatility in profitability. Furthermore, GTL is also exposed to foreign currency rate fluctuation as the company derives 12%-13% of its revenue from the export market while it imports 35%-40% of its raw material requirement.

Thus, the profitability margins of the company remain susceptible to any adverse movement in the foreign exchange rate. However, GTL has a policy to hedge its foreign currency exposure through forward contracts, mitigating the forex exposure to an extent. GTL hedges 100% of its imports (rolling three months hedge) and nearly 60% of its exports on a gross basis.

Presence in fragmented, cyclical and competitive textile industry
GTL operates in a cyclical and fragmented textile industry marked by the presence of many organised as well as unorganised players leading to high competition in the industry. Apart from this, capacity additions by large players and the commoditised nature of cotton yarn also limits the pricing ability of the industry players to an extent. Furthermore, the textile industry is inherently cyclical in nature and closely follows the macroeconomic business cycles. The prices of raw materials and finished goods are also determined by global demand-supply scenario, hence any shift in macroeconomic environment globally also impacts the domestic textile industry. Having experienced professionals who have guided the yarn business successfully through various economic cycles, CARE Ratings expects GTL to maintain its operating efficiency in this cyclical and competitive industry.

Industry outlook
Post the first wave of COVID-19 pandemic, cotton spinners gained momentum supported by healthy export demand. With availability of low cotton inventory and improvement in operating efficiency, the majority of cotton spinners reported all-time high revenue and profitability during FY22. However, owing to weak demand scenario of cotton yarn primarily in the export market coupled with relatively high cotton prices in the domestic market, the cotton yarn spread reduced significantly in FY23 as compared with FY22 which in turn adversely impacted the operating profitability of Indian cotton spinners. India's cotton yarn export in terms of volume stood at 574 million (mn) kg during FY23 as compared with 1,389 mn kg during FY22 (lower by 59% on a y-o-y basis) and 1,012 mn kg during FY21.
With the arrival of new cotton crops, the prices of cotton in the domestic market corrected significantly and currently, trading in the range of ₹60,000-65,000 per candy (around 356 Kg). Furthermore, the prices of cotton are expected to rise by 10% with arrivals drying up. After witnessing decline in export demand in FY23, the demand is likely to see improvement from H2FY24 onwards. On a long-term basis, Indian cotton spinners are expected to maintain stable demand growth and profitability supported by increasing urbanisation, rising disposable income, China+1 strategy adopted by the major global retail players along with various incentives from government like Refund of Duties and Taxes on Exported Products (RoDTEP), Rebate of State and Central Taxes and Levies (RoSCTL) and Mega Integrated Textile Region and Apparel (PM MITRA) Parks, etc.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Cotton Textile
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Textiles	Textiles & Apparels	Other Textile Products

GTL was incorporated in June 2020 to take over the erstwhile textile division (i.e., home textile and yarn division) of GHCL. However, GHCL divested its home textile in April 2022 by way of slump sale to Indo Count Industries Limited. Subsequently, GHCL announced a scheme of de-merger of its yarn division (located at Madurai, Tamil Nadu, having installed capacity of 2.25 lakh spindles) into GTL. The scheme became effective w.e.f. April 01, 2023. GTL would be separately listed company on the stock exchange under the automatic route. Shareholders of GHCL on April 08, 2023, shall become shareholders of GTL.

Brief Financials (₹ crore)	March 31, 2022 (Prov.) ^	March 31, 2023 (Prov.) ^
Total operating income	924	1,033
PBILDT	255	67
PAT	213	23
Overall gearing (times)	0.22	0.06

Brief Financials (₹ crore)	March 31, 2022 (Prov.) ^	March 31, 2023 (Prov.) ^
Interest coverage (times)	20.84	9.16

FY24 would be first Audited year for yarn business under GTL. ^ Indicative performance of erstwhile yarn division of GHCL.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-12-2027	78.74	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	500.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	100.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based/Non-fund-based-LT/ST	LT/ ST	500.00	CARE A-; Stable / CARE A2+	-	-	-	-
2	Fund-based - LT-Term Loan	LT	78.74	CARE A-; Stable	-	-	-	-
3	Non-fund-based - ST-Letter of credit	ST	100.00	CARE A2+	-	-	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Deepak Purshottambhai Prajapati Senior Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Hardik Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Krunal Pankajkumar Modi Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in Akshay Morbiya Lead Analyst **CARE Ratings Limited** E-mail: akshay.morbiya@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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