Ginni Filaments Limited

August 23,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	308.75	CARE BBB-; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	74.57	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ginni Filaments Limited (GFL) continues to draw strength from the experienced and resourceful promoters with long track record of operations, integrated operations (Spinning, Fabric, Non-Woven, Garments and Wipes) and diversified product mix along with established relationship with clients and distribution network and moderate capital structure.

However, the above rating strengths are partially offset by volatility in the raw material prices, susceptibility to foreign exchange rate fluctuations and intense competition in the industry. Further, ratings strengths are also constrained by q-o-q declining financial risk profile leading to cash losses during Q1FY24 (Unaudited, refers to the period of April 01 to June 30) owing to mismatch in cotton and yarn prices followed by lower demand of yarn in overseas as well as domestic markets.

Rating sensitivities: Factors likely to lead to rating actions.

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 5% on sustained basis.
- Deterioration in the capital structure as marked by overall gearing ratio above 1.80x

Analytical approach: Standalone

Outlook: Negative

The Outlook for the long-term facilities of Ginni Filaments Ltd is revised from "Stable" to "Negative" on account of expected deterioration in the financial risk profile of the company owing to mismatch in cotton and yarn prices followed by lower demand of yarn and apparels in overseas as well as domestic markets. For the second quarter of FY24, growth numbers might get impacted as the industry is likely to struggle due to lower demand of yarns coupled overall slowdown in textile industry. The ratings may be revised downwards if profitability of the company continue to deteriorate and there is impact on the liquidity position in terms of higher working capital utilization or incremental debt to support the losses. The outlook may be revised to 'Stable' if the company is able to sustain its scale of operations while maintaining its capital structure and profitability margins.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters with 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. Besides, promoters are resourceful and has shown ability to infuse funds in the business as and when required. Although, during FY23, company has repaid major proportion of unsecured loans from related parties, however, since promoters don't have major liabilities at individual capacity same can be reintroduced whenever required to meet business requirements and during Q1FY24, promoters has already infused unsecured loans leading to outstanding of Rs ~10 crores as at June 30,2023.

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

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

fabrics, and garments. However, Yarn comprises major source of revenue for the company. During FY23, GFL derived 46.19% of its revenue from operations from Yarn which was 49.18% during FY22 followed by non-Woven which comprises 18.32% (PY: 16.90%), fabrics, wipes and other allied products comprises remaining 35.49% (PY: 33.92%) of the total revenue.

Consumer products segment in which they manufacture products like wet wipes and company majorly manufactures wet wipes as a job worker for major brands like Jonson and Jonson etc. Furthermore, they also sell these wet wipes under their own brand which is "CLEA". However, major proportion of revenue in this segment is derived from job work. During FY23, this segment was profitable, and company has earned profit before interest and taxes of Rs. 11.11 crores (after charging depreciation), although, profitability of this segment has also declined as compared to FY22.

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. During the FY23, exports contribute 27% of total revenue from operations of the company as against 33% during FY22. GFL has marketing offices in India to cater to the diversified client base. The customer base is diversified wherein fabrics segment major customers are Shahi Exports & Richa Global and in apparel segment company majorly exports in European and US markets.

Moderate Capital structure

Despite of the loss at net level during FY23 as well as Q1FY24, the capital structure of the company still remains moderate with slight improvement during FY23 on a year-on-year basis, with the long-term debt- to-equity and overall gearing ratios of 0.37x and 1.06x as on March 31, 2023, respectively as compared to 0.39x and 1.26x, respectively, as on March 31, 2022. The improvement was majorly due to repayment of term liabilities along with repayment of unsecured loans from related parties coupled with lower utilisation of working capital limits on balance sheet date. However, since promoters don't have major personal liabilities, promoters are most likely to reintroduce entire unsecured loans from related parties repaid during FY23 to strengthen its liquidity and has already infused some proportion of unsecured loans during Q1FY24 leading to outstanding of Rs ~10 crores as at June 30,2023.

Key weaknesses

Deterioration in overall financial risk profile during FY23 and Q1FY24 as reflected by declining scale of operations and losses at the net-level.

Scale of operations of the entity has declined by 12.04% and stands at Rs 953.92 crores during FY23 (Audited, refers to the period April 01 to March 31) as compared to scale of operations for FY22 (Audited, refers to the period April 01 to March 31) which stands at Rs. 1084.46 crores. Moreover, during Q1FY24 (Unaudited, refers to the period April 01 to June 30) company has booked revenue from operations of Rs. 224.55 crores which has been declined by 18.30% as compared to revenue from operations of Rs. 274.85 crores during Q1FY23 (Unaudited, refers to the period April 01 to June 30. Further, exports comprise 27% during FY23 as against 33% during FY22 of revenue from operations whereas remaining revenue are from domestic sales.

The company has booked loss at PAT level (although, there is marginal cash profit of Rs 4.91 crores) which is further continued in Q1FY24, as company has booked net loss of Rs. 8.84 crores with cash loss of Rs 5.92 crores majorly due to mismatch in cotton prices as against yarn prices, however, cotton prices were stabilised from October 2022 onwards after availability of fresh crop but the fluctuation in prices of Yarn and cotton are not in parity followed by overall slowdown in industry coupled with lower demand in European and US markets thereby impacting export revenue of the company as well as domestic revenue since company's domestic buyers are also ultimately supplies in European and US markets.

Volatility in the raw material prices:

GFL derives majority of income from the sale of cotton yarn which comprises almost 46% of revenue during FY23 and rest through fabrics, garments, nonwoven fabric, and wipes. The basic raw material for production of yarn is cotton. Cotton prices 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 generally don't tends to move in line of cotton prices which plays a vital role on the profitability margins of GFL's fabric and garment verticals.

Cotton yarn exports declined has severely impacted during H1FY23 due to global economic conditions leading to down trend in European and US markets post Russia-Ukrain conflict. Although, there has been some revival in second half of FY23 as cotton prices cool down after arrival of fresh cotton crop in October 2022 to Rs 65000 per candy as against peek price of Rs 1.10 lacs per candy. However, this is still above pre covid levels which has impacted the profitability of spinning mills by 5-7% on PBILDT level during FY23.

Cotton Yarn prices are likely to be steady going forward as buying improves in northern India owing to overall rise in demand in textile Industry. 40 count combed cotton yarn prices have improved to Rs 315-Rs 320 per kilogram which previously used to be around Rs 280- Rs 285 per kilogram.

Susceptibility to foreign exchange rate fluctuations:

As substantial portion of GFL's income is generated through the export market (FY22: 27% of sales; PY: 33%), thereby the company is exposed to foreign exchange fluctuation risk. However, GFL has some amount of natural hedge due to some imports of raw material. Although, the company also hedges the risk through forward contracts despite of which some proportion of forex exposure remains unhedged leading to currency fluctuation risk. However, company has gained Rs 1.59 crores during FY23 (PY: Rs. 2.34 crores) on account of foreign currency fluctuation.

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 owing to current economic distress in European and US market. 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

The company has earned Gross Cash Accruals (GCA) of Rs. 4.91 crores during FY23 and is projecting to generate GCA of around Rs ~21 crores & Rs ~35 crores in FY24 & FY25 respectively and liquidity is further supported by unsecured loans infused by the promoters having outstanding of Rs ~10 crores as at June 30,2023. The current and quick ratio stood at a moderate level of 1.27x and 0.63x, as on March 31, 2023, as compared with 1.29x and 0.57x as on March 31, 2022. Since, company has higher inventory holding of Rs. 162.14 crores as at March 31,2023, (PY: Rs 258.03 crores) leading to quick ratio below unity. Furthermore, due to high inventory holding operating cycle remains moderate at 108 days during FY23 as against 107 days during FY22 owing to which average working capital utilisation of the company remains comparatively moderate and stood at 55.22% during the last 12 months ending April 2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

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

About the company and industry

Industry classification

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

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30,2023
Total operating income	1,084.46	953.92	224.55
PBILDT	113.77	23.23	1.11
PAT	48.36	-14.33	-8.84
Overall gearing (times)	1.12	0.92	NA
Interest coverage (times)	4.67	1.02	0.15

A: Audited UA: Unaudited; NA: Not Available 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 last three years: Please refer Annexure-2

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

Complexity level of 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-Cash Credit		-	-	-	207.00	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	March 2026	101.75	CARE BBB-; Negative
Non-fund-based - ST-BG/LC		-	-	-	74.57	CARE A3

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 - LT-Cash Credit	LT	207.00	CARE BBB-; Negative	1)CARE BBB-; Stable (28-Jun-23)	1)CARE BBB; Negative (21-Feb-23) 2)CARE BBB; Stable (28-Jun-22)	1)CARE BBB; Stable (18-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	74.57	CARE A3	1)CARE A3 (28-Jun-23)	1)CARE A3+ (21-Feb-23) 2)CARE A3+ (28-Jun-22)	1)CARE A3+ (18-Aug-21)	1)CARE A3 (07-Sep-20)
3	Fund-based - LT-Term Loan	LT	101.75	CARE BBB-; Negative	1)CARE BBB-; Stable (28-Jun-23)	1)CARE BBB; Negative (21-Feb-23) 2)CARE BBB; Stable (28-Jun-22)	1)CARE BBB; Stable (18-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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.

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