# Ginni Filaments Limited

February 05,2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 308.75 | CARE BB+; Stable | Revised from CARE BBB-; Negative |
| Short Term Bank Facilities | 74.57 | CARE A4+ | Revised from CARE A3 |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision on ratings of the bank facilities of Ginni Filaments Limited (GFL) takes into account quarter-on-quarter deterioration in overall financial risk profile of the entity owing to continuous cash losses sustained by the company starting from Q2FY23 (Unaudited; refers to the period of July 01 to September 30) onwards till Q3FY24 (Unaudited; refers to the period of October 01 to December 31) majorly due to mismatch in cotton and yarn prices coupled with slowdown in exports and domestic markets leading to company's inability to pass on increased input cost to its buyers.

The ratings, further, constrained by volatility in the raw material prices, susceptibility to foreign exchange rate fluctuations and intense competition in the industry.

However, ratings continue 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.

## 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**

- Any further deterioration in profitability margins or capital structure from current levels.

## Analytical approach: Standalone

## Outlook: Stable

The revision in outlook for the long-term bank facilities of GFL from "Negative" to "Stable" takes into account abilities of the management due to its long track record of operations to mitigate the inherent risk related to volatility in raw material prices to some extent.

## Detailed description of the key rating drivers:

### Key weaknesses

**Deterioration in overall financial risk profile during FY23 and 9MFY24 owing to quarter-on-quarter cash losses sustained by the company.**

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 91FY24 (Unaudited, refers to the period April 01 to December 31) company has booked revenue from operations of Rs. 674.36 crores which has been declined by 7.36% as compared to revenue from operations of Rs. 727.96 crores during 9MFY23 (Unaudited, refers to the period April 01 to December 31). 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 as well as loss at gross cash accruals (GCA) levels of Rs. 33.68 crores and Rs. 28.12 crores respectively during 9MFY24 majorly due to mismatch in cotton prices as against yarn prices.

The company operates in both traditional and technical textile segments whereas above mentioned losses pertain to traditional textile segment whereas technical textile segment is performing well. Thus, company has approved transfer of spinning, knitting, and processing undertaking of the company on a slump sale basis as a going concern to RSWM Limited for agreed consideration of Rs 160 crores which is expected to be completed by the end of February 2024. The spinning, knitting, and processing

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

undertaking of company comprise of 65.97% of the total revenue from operations during FY23 (Audited, refers to the period of April 01 to March 31). The reason for slump sale was that the said division was sustaining losses from June 2022 quarter onwards due to overall slowdown in the industry which is not likely to improve substantially in near future as machines has become old and requires huge investment. After conclusion of slump sale company will be left with technical textile segment only and thus company expects profits from Q1FY25 onwards.

**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 (FY23: 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.

## 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, considering operational requirements promoters has reintroduced USL in current financial year leading to outstanding of Rs 26 crores as at December 31,2023..

**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 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 9MFY24, 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 coupled with reducing utilisation of working capital limits owing to liquidation of inventory.

## Liquidity: Stretched

The company has earned Gross Cash Accruals (GCA) of Rs. 4.91 crores during FY23, although they have sustained cash losses in 9MFY24 of Rs. 28.12 crores against scheduled repayment obligation of around Rs ~29 crores for FY24. Thus, company has met repayment obligation vide reintroduction of USL from promoters and liquidation of inventory which clearly implies stretched liquidity position of the entity. Although, company has used cash credit limits to the extent of Rs 152.41 crores as at December 31,2023, against drawing power of Rs 174.90 crores.

**Assumptions/Covenants:** Not Applicable

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

## 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

## 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) | December 31,2023 (UA) |
|---|---|---|---|
| Total operating income | 1,084.46 | 953.92 | 674.36 |
| PBILDT | 113.77 | 23.23 | -6.98 |
| PAT | 48.36 | -14.33 | -33.68 |
| Overall gearing (times) | 1.12 | 0.92 | NA |
| Interest coverage (times) | 4.67 | 1.02 | -0.31 |

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 BB+; Stable |
| Fund-based - LT-Term Loan | | - | - | March 2024 | 101.75 | CARE BB+; Stable |
| Non-fund-based - ST-BG/LC | | - | - | - | 74.57 | CARE A4+ |

## 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 BB+; Stable | 1)CARE BBB-; Negative (23-Aug-23)<br><br>2)CARE BBB-; Stable (28-Jun-23) | 1)CARE BBB; Negative (21-Feb-23)<br><br>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 A4+ | 1)CARE A3 (23-Aug-23)<br><br>2)CARE A3 (28-Jun-23) | 1)CARE A3+ (21-Feb-23)<br><br>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 BB+; Stable | 1)CARE BBB-; Negative (23-Aug-23)<br><br>2)CARE BBB-; Stable (28-Jun-23) | 1)CARE BBB; Negative (21-Feb-23)<br><br>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

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|---|
| 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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