Ginni Filaments Limited

February 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	286.04	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	62.17	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 (GHL) continue to derive strength from the experienced and resourceful promoters with long track record of operations, moderate financial risk profile, integrated operations (Spinning, Fabric, Non-Woven, Garments and Wipes) and diversified product mix coupled with established relationship with clients and distribution network. However, the ratings are constrained by susceptibility to foreign exchange rate fluctuations coupled with volatility in the raw material prices and intense competition.

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 7% on sustained basis
- Deterioration in the capital structure as marked by overall gearing ratio above 1.80x
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Analytical approach: Standalone

Outlook: Negative

The Outlook for the long-term facilities of Ginni Filaments Ltd have been revised from "Stable" to "Negative" on account of expected deterioration in the financial risk profile of the company as reflected by cash losses in recent quarters due to overall slowdown in the textile industry following the mismatch in yarn and cotton prices coupled with overall economic conditions of European and US markets thereby severely impacting exports (for its wet wipe segment). For the immediate quarter and probably the next half year, growth numbers might get impacted as the industry is likely to struggle due to lower yarn prices. 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 growing scale of operations while maintaining its capital structure and profitability margins.

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, unsecured loans from promoters and related parties stood at Rs. 23.07 crores as at December 31,2022 used for funding of working capital, which has been reduced from Rs. 30.66 crores as at March 31,2022, since company has repaid Rs 7.39 crores during 9MFY23 majorly vide liquidation of working capital.

Moderate financial risk profile:

The scale of operations of the company continued to remain moderate during the 9MFY23 (Unaudited, refers to the period April 01 to December 31,2022) as reflected by revenue from operations of Rs. 727.96 crores as compared to Rs. 756.43 crores during 9MFY22 (Unaudited, refers to the period April 01 to December 31,2022). However, Company has booked loss at net level of Rs. 9.07 crores since profitability have declined during 9MFY23 as reflected by PBILDT & PAT margins of 3.04% & (-) 1.25% as compared to 11.85% & 4.99% respectively during 9MFY22, owing to which company has booked gross cash accruals (GCA) of only Rs. 7.13 crores in 9MFY23 as against Rs. 54.74 crores during 9MFY22. The company has booked loss at PAT level (although,

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

there is marginal cash profit of Rs 7.13 crores) majorly due to mismatch in cotton prices as against yarn prices, although, 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 followed by 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.

The capital structure of the company continues to remain moderate with slight deterioration during FY22 on a year-on-year basis, with the long-term debt- to-equity and overall gearing ratios of 0.39x and 1.12x as on March 31, 2022, respectively (compared to 0.19x and 0.97x, respectively, as on March 31, 2021). The deterioration in capital structure was majorly due to capex of Rs. 78.74 crores majorly funded by debt in ratio of 3:1.

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 9MFY22, GFL derived 49.30% of its revenue from operations from Yarn which has been increased from 42% during FY21 followed by non-Woven which comprises 17.46% (PY: 28%), fabrics, wipes and other allied products comprises remaining 33.24% (PY: 31%) of the total revenue.

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 FY22, exports contribute 33% of total revenue from operations of the company which has been improved from 30% during FY21. GFL has marketing offices in India to cater to the diversified client base. The customer base is diversified with top five customers contributed only 19% to the total income of GFL during 9MFY22 which is improved from 22% during FY21.

Key weaknesses

Susceptibility to foreign exchange rate fluctuations:

As substantial portion of GFL's income is generated through the export market (FY22: 33% of sales; PY: 30%), 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. Though the company hedges the risk through forward contracts GFL continues to remain exposed to currency fluctuation risk. However, company has gained Rs 2.34 crores during FY22 (PY: Rs. 0.42 crores) on account of foreign currency fluctuation.

Volatility in the raw material prices:

GFL derives majority of income from the sale of cotton yarn which comprises almost 49% of revenue during FY22 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 price increased by over 80% from March 2021 to March 2022, on the back of strong demand for cotton and cotton yarn in the domestic and international markets and an increase in international cotton prices and has been stabilized from October 2022 after arrival of new crop in the market. Despite of rationalisation in cotton prices, yarn prices remains highly volatile and moved independently and not in the line of cotton prices. Apart from cotton, the prices of other key inputs, such as chemical and freight costs, have also witnessed a sharp rise recently, which also keeps pressure on its margins in the near-to-medium term.

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

The company has a total debt repayment obligation of Rs. 28.79 crores in FY23 (majority of which has been already paid) & Rs. 29.91 crores for FY24, which will be met through the operational cash flow. Company has earned Gross Cash accruals (GCA) of Rs. 73.74 crores during FY22 & Rs. 7.13 crores in 9MFY23. Company has highly relied on working capital liquidation for repayment of its term liabilities in current financial year till December 2022 due to lower GCA of Rs 7.13 crores only against scheduled repayment obligations. Furthermore, company has also repaid unsecured loans from related parties to the extent of Rs. 7.39 crores in 9MFY23. Although, the average working capital utilization of the company remains moderate and stood at Rs. 89.32 crores as at December 31,2022, as against drawing power of Rs 160 crores which provides company sufficient cushion for meeting of its scheduled debt obligations.

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, 2021 (A)	March 31, 2022 (A)	December 31,2022 (UA)
Total operating income	778.42	1,084.46	727.96
PBILDT	110.80	113.77	22.16
PAT	41.30	48.36	-9.07
Overall gearing (times)	0.97	1.12	NA
Interest coverage (times)	4.09	4.67	1.21

A: Audited; UA: Unaudited; NA: Not 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-Cash Credit		-	-	-	207.00	CARE BBB; Negative
Fund-based - LT-Term Loan		-	-	March 2024	79.04	CARE BBB; Negative
Non-fund-based - ST-BG/LC		-	-	-	62.17	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	207.00	CARE BBB; Negative	1)CARE BBB; Stable (28-Jun-22)	1)CARE BBB; Stable (18-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BBB-; Stable (03-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	62.17	CARE A3+	1)CARE A3+ (28-Jun-22)	1)CARE A3+ (18-Aug-21)	1)CARE A3 (07-Sep-20)	1)CARE A3 (03-Oct-19)
3	Fund-based - LT-Term Loan	LT	79.04	CARE BBB; Negative	1)CARE BBB; Stable (28-Jun-22)	1)CARE BBB; Stable (18-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BBB-; Stable (03-Oct-19)

*Long term/Short term.

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-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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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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