

## GTN Textiles Limited

November 27, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	12.43	<b>CARE B; Stable</b> [Single B; Outlook: Stable]	Revised from CARE D [Single D]
Short-term Bank Facilities	58.30	<b>CARE A4</b> [A Four]	Reaffirmed
<b>Total Facilities</b>	<b>70.73</b> <b>(Rupees Seventy crore and Seventy three lakh only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of GTN Textiles Limited (GTL) takes into account the improvement in the debt servicing track record of the company and improved financial performance during FY18 (refers to the period April 01 to March 31).

The ratings continue to be constrained by GTL's volatile operating profit margins, working capital intensive nature of operations resulting in moderate capital structure and cyclical nature of the textile industry. The ratings favourably factor in the vast experience of the promoters in the textile industry and synergy of operations among the group companies.

Going forward, improvement in profitability and capital structure are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Established track record of operations through an experienced management team:

GTL is a part of the GTN-BKP group which is operating three textile mills with a total spinning capacity of around 2,15,000 spindles. The promoters have an established track record for over 45 years. The promoters are assisted by a well-experienced and professional management team. The major activities of the group companies such as procurement, marketing and allocation of orders to different units are done at group level. The group has been a pioneer in bringing several new technologies into the Indian spinning industry and is among the few early exporters of textile products from India.

##### Synergy of operations among group companies:

GTL is part of GTN-BKP group which is operating three textile mills with total spinning capacity of around 2,15,000 spindles. Major activities such as procurement, marketing and allocation of orders to different units are done at group level. Companies are likely to benefit from this synergy of operations.

##### Improved financial performance in FY18 and satisfactory debt servicing track record:

During FY18, the total operating income has increased to Rs.147.4 crore as against Rs.121.9 crore in FY17 due to favourable product mix with higher exports and favourable exchange rate on exports. On account of improved sales realisation, PBILD margin improved to 9.25% in FY18 from 5.76% in FY17. During FY18, GTL registered PBILD of Rs.13.6 crore as against Rs.7.0 crore in FY17. Despite improvement in operating profit, the company reported loss in FY18 due to higher interest and depreciation cost. However losses are reduced to Rs.2.2 crore in FY18 as compared to Rs.6.6 crore in FY17. GCA stood at Rs.1.06 crore in FY18 as against negative cash accruals of Rs.4.65 crore in FY17. Debt equity ratio reduced to 1.14 times as on March 31, 2018 as against 1.61 times as on March 31, 2017.

### Key rating weaknesses

#### Inherent volatility associated with the raw material and its impact on profitability:

The profitability of spinning mills depends largely on the prices of cotton and cotton yarn which are governed by various factors such as area under cultivation, monsoon, international demand-supply situation, etc. Cotton being the major raw material of spinning mills, volatility in the prices of cotton impacts the profitability of the company. In the past five years, profitability margins of GTL have been volatile.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Liquidity position:**

Debt servicing track record has improved with company regularising term loan interest and principal repayments since June 2018 aided by funds received through ICDs and loans from related parties. The total o/s of ICD/Loan from related parties as on Sep 30, 2018 was around Rs.20 Cr as against Rs.16.2 Cr as on March 31, 2018. Due to working capital intensive nature of operations, overall gearing remains high at 5.98x as at March 31, 2018 as against 4.69x as at March 31, 2017.

The company has a surplus land of 5 acres in Aluva, Kerala and is in the process of selling the same and expects to receive around Rs.20 Cr in tranches in Q4FY19 and Q1FY20. The proceeds will be used to repay the ICDs and the balance will be used to improve the Working Capital position.

Average working capital utilization in the past 12 months period ended September 2018 remained high at 96% for the company. The company's Cash and Cash equivalents stood at Rs.2.1 Cr outstanding as on September 30, 2018.

**Analytical approach:** Standalone

**Applicable Criteria**

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[CARE's Credit Rating Process](#)

[Criteria on assigning Outlook to Credit ratings](#)

[Financial ratios – Non-Financial Sector](#)

**About the company**

The primary business activity of GTN Textiles Ltd (GTL) is production and sale of cotton yarn. GTL is part of Kerala-based GTN-BKP (GTN-BK Patodia) having its production facilities in the state of Kerala. As on March 31, 2018, GTN Textiles Limited (GTL) had a capacity of 56,848 spindles which includes 34,896 compact spindles and 21,952 ring spinning. The company produces fine and super fine counts of cotton yarn in the range of 40s to 140s.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	121.9	147.4
PBILDT	7.0	13.6
PAT	(6.3)	(2.2)
Overall gearing (times)	4.69	5.98
Interest coverage (times)	0.71	1.29

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### 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-Term Loan	-	-	June 2020	4.03	CARE B; Stable
Fund-based - ST-EPC/PSC	-	-	-	29.80	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	28.50	CARE A4
Fund-based - LT-Cash Credit	-	-	-	8.40	CARE B; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	4.03	CARE B; Stable	-	1)CARE D (04-Dec-17)	1)CARE D (22-Feb-17)	1)CARE D (26-Oct-15)
2.	Fund-based - ST-EPC/PSC	ST	29.80	CARE A4	-	1)CARE A4 (04-Dec-17)	1)CARE A4 (22-Feb-17)	1)CARE A4 (26-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	28.50	CARE A4	-	1)CARE A4 (04-Dec-17)	1)CARE A4 (22-Feb-17)	1)CARE A4 (26-Oct-15)
4.	Fund-based - LT-Cash Credit	LT	8.40	CARE B; Stable	-	-	-	-

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CIN - L67190MH1993PLC071691