

Gujarat Hy-Spin Limited

April 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	28.77 (reduced from 32.58)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Long-term Bank Facilities/ Short-term Facilities	2.00	CARE BB-;Stable / CARE A4 (Double B Minus; Outlook : Stable / A Four)	Reaffirmed
Total Facilities	30.77 (Rupees Thirty crore and Seventy Seven Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gujarat Hy-Spin Limited (GHSL) continue to remain constrained on account of its moderate scale of operation and profit margins, moderately leveraged capital structure, moderate debt coverage indicators and moderate liquidity position in FY17 (refers to the period April 1 to March 31). Furthermore, the ratings continue to remain constrained by presence in highly fragmented cotton yarn industry and susceptibility of operating margins due to raw-material price fluctuation risk.

The ratings, however, derive strength from the wide experience of the promoters of over two decades in the cotton industry and operational linkages with associate concerns coupled with government support/incentives to the textile industry. The ratings further take into account listing of the company on BSE SME in FY18.

GHSL's ability to increase its scale of operations along with improvement in the profit margins and better working capital management are the key rating sensitivities. Further, improving solvency position and debt protection metrics would also remain crucial.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations and moderate profit margins

Total operating income (TOI) of GHSL has remained moderate and in line as compared to the previous year due to stagnant demand and stood at Rs.52.04 crore during FY17 as against Rs.51.89 crore in FY16. The operating margins remained comfortable marked by PBILDT margin of 16.51% in FY17 as against 17.61% in FY16. Further, PAT remained low on the back of high depreciation and interest costs.

Moderately leveraged capital structure and moderate debt coverage indicators

Solvency position marked by overall gearing stood moderately leveraged at 1.59 times as on March 31, 2017 owing to moderate debt level and net worth base as on March 31, 2017 while total debt to GCA stood at 6.06 times as on March 31, 2017 as against 5.80 times as on March 31, 2016 on account of low GCA level. Furthermore, the interest coverage ratio deteriorated during FY17 and stood at 2.83 as against 3.50 times during FY16, due to higher interest and finance expense.

Moderate liquidity position

The current ratio stood at 2.40 times as on March 31, 2017 as against 2.15x as on March 3, 2016 on account of higher inventory as on balance sheet date. The working capital cycle elongated and stood at 175 days during FY17 as against 140 days during FY16, mainly on account of higher inventory and collection period during FY17.

Key Rating Strengths

Experienced promoters

The promoters of GHSP L Mr Maganbhai Parvadia and Mr Chandulal Parvadia are engaged in cotton ginning and pressing business for more than two decades. Both promoters continue to carry on the business of cotton ginning and pressing in a partnership firm i.e. Gujarat Ginning & Oil Industry (GGOI, since 1994). Prior to that, during 1980-1988, Mr Maganbhai Parvadia was engaged with Bhagwati Oil Mills and Mota Devadia.

Listing of the company on SME platform in FY18

GHSL has been successfully listed on SME platform of BSE (BSE SME) through SME IPO in February, 2018 with issue size of 44.50 lakh equity shares each of Rs.10.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for cotton yarn Industry](#)
[CARE's methodology for manufacturing companies](#)
[Financial ratios – Non-Financial Sector](#)
[Criteria for Short Term Instruments](#)

About the Company

GHSL was incorporated as a private limited company on February 01, 2011 by Mr Maganbhai Parvadia and Mr Chandulal Parvadia, and converted to limited company in February, 2017. GHSL has two group concerns namely Gujarat Ginning & Oil Industry and Paras Cotton. The former is engaged in cotton ginning, pressing and crushing of oil seeds while the latter carries out trading of cotton seeds and cotton bales. GHSL has a spinning mill with an installed capacity of 17,952 spindles or 3,582 MTPA as on March 31, 2017 for manufacturing of cotton yarn having combed counts yarn of 30s at its Gondal plant (Gujarat). GHSL started commercial production from December, 2013 onwards.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	51.89	52.04
PBILDT	9.14	8.59
PAT	0.03	0.05
Overall gearing (times)	1.84	1.59
Interest coverage (times)	3.50	2.83

A: Audited; Prov.: Provisional

Till 9MFY18 (Provisional), GHPL reported total operating income of Rs.41.15 crore.

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. Investors/market intermediaries/regulators or others are welcome to write to 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	-	-	December, 2021	18.77	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE BB-; Stable / CARE A4

Annexure 2: Rating History for 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	18.77	CARE BB-; Stable	1)CARE BB- (10-Jul-17) 2)CARE BB-; ISSUER NOT COOPERATING* (19-Apr-17)	1)CARE BB- (16-May-16)	1)CARE BB- (02-Mar-16) 2)Suspended (13-Jan-16)	1)CARE B+ (31-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	1)CARE BB- (10-Jul-17) 2)CARE BB-; ISSUER NOT COOPERATING* (19-Apr-17)	1)CARE BB- (16-May-16)	1)CARE BB- (02-Mar-16) 2)Suspended (13-Jan-16)	1)CARE B+ (31-Dec-14)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BB-; Stable / CARE A4	1)CARE BB- / CARE A4 (10-Jul-17) 2)CARE BB- / CARE A4; ISSUER NOT COOPERATING* (19-Apr-17)	1)CARE BB- / CARE A4 (16-May-16)	1)CARE BB- / CARE A4 (02-Mar-16) 2)Suspended (13-Jan-16)	1)CARE B+ / CARE A4 (31-Dec-14)
4.	Non-fund-based - ST-Working Capital Limits	ST	-	-	1)Withdrawn (10-Jul-17) 2)CARE A4; ISSUER NOT COOPERATING* (19-Apr-17)	1)CARE A4 (16-May-16)	1)CARE A4 (02-Mar-16) 2)Suspended (13-Jan-16)	1)CARE A4 (31-Dec-14)

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