GTN Enterprises Limited

April 25, 2024

Ratings:

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple/ Complex/ Highly complex)
Long term Bank Facilities	8.18 (Reduced from Rs. 13.05 Cr.)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	36.94 (Reduced from Rs. 43.94 Cr.)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**45.12 (Rupees Forty-five crores and twelve lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has reaffirmed its rating on bank facilities due to continued overall improvement in financial profile of the company in FY23 and impact in the profitability due to in the yarn prices and muted demand in the industry. Further ratings continue to derive comfort from experienced promoters with long industry experience, established relationships with clients and suppliers, diversified market presence, measures to reduce costs and improvement in financial profile along with improvement in debt protection metrics. The ratings are however constrained by raw material price risk and foreign exchange risk.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained improvement in revenue and/or profitability margins
- Improvement in debt coverage indicators

Downward Factors

- Deterioration in working capital cycle and liquidity profile of the company.
- Substantial decline in profitability impacting debt protection matrix and liquidity.

List of Key Rating Drivers with Detailed Description

Experienced promoters with long industry experience

GEL is promoted by Mr. B.K. Patodia, who has experience of over five decades in this industry. He is a renowned name in the textile industry and holds an engineering degree from BITS- Pilani. He established the GTN group in 1966 when he started a spinning mill in Kerala (GTN Textiles Limited). His son, Mr. Ankur Patodia is the Managing Director of the company.

Established relationships with clients and suppliers

GEL has established relationships with its clients. The company has a moderately diversified client base. The company has built up an excellent customer base over the years by supplying yarns of superior quality. The raw material for the company is cotton, which is primarily imported from USA and Egypt. The company has long term business relations and established supply arrangements for procuring the same.

Diversified market presence

The company exports fine and superfine counts of yarn to various countries. The company has been able to derive a significant portion of its revenues from exports, thereby reducing its dependence on the domestic market (which had faced a slowdown post demonetization and GST implementation). The exports are primarily to Sri Lanka, Germany, and Korea amongst many others.

Measures to reduce costs

Company installed a 2.8 MW roof top solar power generation plant at its Factory in Udumalpet and the commercial production commenced from March 28, 2024. Solar power generation from this Roof top plant would be 19% of annual power requirement thereby providing additional savings of Rs 2.45 Cr. per annum from FY 2024-25 onwards. Further, the company entered into agreement to procure Solar power from 3rd party generators for 63% of its annual power requirement at a competitive price therefore reducing the power cost and generate savings of Rs 3.40 Cr annually. Overall savings in power cost expected in FY 2024-25 would be ~Rs. 5.85 Cr. which would increase the profitability to that extent. The Company utilized its internal cash accruals to carry out modernisation of its plant (including conversion to compact yarn manufacturing spindles). This would improve yield, quality, flexibility of product range required by market and improve realisations and margins. The company is also implementing project for manufacture of value-added products (Gassed yarn) at a cost of about Rs. 1 Cr. and the production of which is expected to commence during Q2 of FY25 providing visibility for improved profitability in the subsequent year.

Improvement in financial profile

The robust financial risk profile is supported by comfortable networth, low gearing, and strong debt protection metrics. There has been overall improvement in financial profile of the company in FY23. The total operating income improved at CAGR of 50% over past three years. The TOI improved by ~23% y-o-y and stood at Rs. 343.93 Cr. as against Rs. Rs. 280.60 Cr. in FY22. The profitability was impacted due to moderation in the yarn prices during the year. The EBITDA margins stood at 7.69% in FY23 as against 12.47% in FY22. The PAT margin stood at 2.84% in FY23 as against 6.07% in FY22. The capital structure of the company is comfortable with long-term debt to equity ratio as on March 31, 2023, witnessing an improvement from previous years at 0.21x as against 0.36x in FY22 as a result of reduction in long term debt. Overall gearing ratio of the company stood at 0.75x as of March 31, 2023, improving from 0.98x in the previous year as a result of improved net worth of the company and reduction in total debt. The TOL/TNW has improved to 1.59x in FY23 from that of 1.94x in FY22 mainly on account of increase in net worth of the company. Debt protection metrics remains adequate with the Interest Coverage ratio and Total Debt/EBIDTA at 3.97 times and 1.50 times respectively as on March 31, 2023.

Key Rating Weaknesses:

Raw material price risk

The primary raw materials for the company are raw cotton and cotton yarn. The prices of these raw materials are impacted by various factors like the monsoon, government policies (MSP), demand supply etc. As a result, the prices of cotton have been volatile over the last few years.

Foreign exchange risk

As the company has imports as well as exports in USD, for which the company has in place various management information systems, which enable the management to take decisions on exposures relating to exports and imports. The company continues to strengthen these systems to minimise the risk involved due to the adverse movement of exchange rates. The company also engaged a professional forex advisor to support the day-to-day forex management and to evolve the strategies. As a company policy, the entire export receivables are hedged as of Dec. 31, 2023. The unhedged foreign exposure (FCY Payables) as of 31st December 2023 was at Rs. 17.09 Crore.

Analytical Approach: Standalone Approach

Applicable Criteria:

[Criteria of Rating Outlook | Infomerics Ratings]

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity – Adequate

The company has modest current ratio and quick ratio as of March 31, 2023 at 1.23x and 0.59x respectively. The DSCR of the company is comfortable at 2.87x as on March 31, 2023. The average fund-based bank limit utilization for the past 12 months ended January 2024 has been ~60%, thus indicating adequate liquidity headroom coupled with cash and cash equivalents stood at Rs. 7.85 Crore as on March 31, 2023.

About the Company:

GTN Enterprises Limited (GEL) is an unlisted public limited company. The company commenced operation in the year 2005 and is engaged in manufacturing and export of fine and super fine combed cotton yarn from its manufacturing facility located at Udumalpet (Tamil Nadu). GEL is also engaged in trading of yarn, where some value addition (doubling, winding etc.) is done by the company. The company was promoted by Mr. B.K. Patodia who has over five decades of experience in spinning industry. Mr. Patodia holds an engineering degree from BITS Pilani. He is a renowned name in the textile industry. His son, Mr. Ankur Patodia is the Managing Director of the company. GEL is a part of GTN group, a major textile conglomerate having presence in spinning, yarn dyeing, knitting, knit processing and garmenting.

Financials (Standalone): **(Rs. Crore)**

For the year ended/ As on*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	280.60	343.93
EBITDA	34.98	26.46
PAT	17.05	9.77
Total Debt	42.16	39.82
Tangible Net Worth	43.18	53.04
EBITDA margin (%)	12.47	7.69
PAT margin (%)	6.07	2.84
Overall Gearing Ratio (times)	0.98	0.75

* *Classification as per Infomerics' standards*

Status of non-cooperation with other CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned on Feb 20, 2023	Date(s) & Rating(s) assigned on June 14, 2022	Date(s) & Rating(s) assigned on Oct. 29, 2021
1.	Long term Bank Facilities	Long Term	8.18 (Reduced from Rs. 13.05 Cr.)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	IVR BB-/ Stable (IVR Double B minus with Stable Outlook)
3.	Short term Bank Facilities	Short Term	36.94 (Reduced from Rs. 43.94 Cr.)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	IVR A4+ (IVR A Four Plus)	IVR A4 (IVR A Four)

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Press Release

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund Based Bank Facilities – ECLGS	--	--	Sept- 2024	0.58	IVR BBB-/ Stable
Fund Based Bank Facilities – ECLGS	--	--	July- 2024	0.60	IVR BBB-/ Stable
Fund Based Bank Facilities – Cash Credit	--	--	Revolving	7.00	IVR BBB-/ Stable
Fund Based Bank Facilities – Packing Credit	--	--	--	13.20	IVR A3
Non-Fund Based Bank Facilities – Letter of Credit	--	--	--	8.00	IVR A3
Non-Fund Based Bank Facilities – Letter of Credit	--	--	--	12.60	IVR A3
Non-Fund Based Bank Facilities – Bank Guarantee	--	--	--	1.50	IVR A3
Non-Fund Based Bank Facilities – Bank Guarantee	--	--	--	0.50	IVR A3
Non-Fund Based Bank Facilities – Forward Contract	--	--	--	1.14	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-GTNE-apr24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com