



Press Release

Gita Met Industries

January 28, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	18.10	IVR BB/ Stable (IVR Double B Plus with Stable Outlook)	Assigned
2.	Short Term Bank Facilities	0.67	IVR A4 (IVR A Four)	Assigned
	Total	18.77		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of **Gita Met Industries** draws comfort from its experienced promoters and top Management, Reputed Clients and Growing scale of operations with a geographical advantage in Surat. However, these rating strengths are partially offset by fluctuations in margins due to volatile nature of raw material prices and intense competition in the industry.

Key Rating Sensitivities:

Upward Factor:

- Continuous improvement in the operating margin combined with adequate cash accruals leading to high reinvestment in the company
- Diverse product portfolio combined with high geographical diversity, thus reducing concentration risk in case of natural disasters

Downward factor:

- Large debt-funded capex plans leading to weakening of the capital structure
- Working capital cycle is stretching more year on year, thus requiring more working capital requirements and weakening the financial risk profile

List of Key Rating Drivers with Detailed Description



Press Release

Key Rating Strengths

Extensive promoter experience in the industry

Gita Met Industries is a partnership firm which started operations in 2018. Through the support of its sister concern and the backing by the group, the firm has been able to turn profitable in a mere 2 years. Thus, the company has been able to take advantage of the long-standing relations with both the customers and the suppliers. As most of the key personnel are of the same extended family, the organizational operations are managed with utmost care and information.

Geographical advantage through presence in Surat

The company operates in Surat city of Gujarat, which is a textile hub. The city has a number of small and unorganized players operating in the textile industry. This provides easy availability of raw materials, labor & logistics which reduces the cost of production thus improving operating & profitability margins.

Increasing scale of operations & good debt coverage indicators

The total operating income of GMI increased significantly in FY20 from Rs. 29.67 in FY19 crore to Rs. 46.49 crore. Moreover, the EBITDA margin increased from 8.16 % in FY19 to 15.54% in FY20. The PAT Margin also increased significantly from 1.30% in FY19 to 3.20% in FY20. The financial risk profile of the company is defined by its debt coverage indicators which have improved in the last 2 fiscal years. The overall gearing ratio has improved from 2.74 in FY19 to 1.73 in FY20.

Key Rating Weaknesses

Fluctuations in margins due to volatile raw material prices

The prices of key raw materials, especially polyester films dependent upon crude oil prices, which are volatile in nature. Demand-supply dynamics also impact prices. The ability to pass on price risk to customers mitigates the exposure, but the working capital-intensive nature of operations should keep the company exposed to this risk. Even if the company is able to pass on the extra cost on to the customer, the customers might start preferring other competitors due to higher costs. The company needs to make sure that their costs are kept in check and do not eat into the profits being generated.

Competitive and fragmented nature of the industry



Press Release

The textile industry is competitive with a large number of small players that cater to the local demand. To reach economies of scale and have a larger market share, the company has to continuously invest in expanding facilities. Moderate scale of operations along with intense competition restricts the pricing flexibility of GMI. The modest scale of operations amid intense competition is expected to restrict GMI's pricing and bargaining power over the medium term. As the company supplies to the textile industry, the products have to be priced conveniently so as to be competitive enough.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The company has adequate liquidity as seen by expected Gross Cash Accruals of Rs. 4-7 crore which are comparable to the debt obligations ranging around Rs. 4.00 crores from FY21-23. Its bank limits are utilized to the extent of ~86% during the past 12 months ended December 31, 2020 indicating enough liquidity buffer. The current ratio stands at 1.21 on March, FY20 with low cash & bank balance of Rs. 0.05 Crore. There is enough headroom in terms of gearing going into the future.

About the Company

M/S Gita Met Industries (GMI) was established in May 2014. It is a partnership firm. It is located at Surat, Gujarat. The firm has started its commercial operations from 4th October 2018. Gita Met Industries (GMI) have four partners namely Gita Patel, Chandrika Patel, Rita Patel and Shobha Patel. It is engaged in manufacturing of Metallic Yarn. Its manufacturing capacity is around 150000 cubic meter per annum. The group entities of Gita Met Industries; namely Sagar Metallica Pvt. Ltd., Sagar Enterprise, Nirali Fashion, Sagar Corporation and Sagar Prints are into similar line of business. They are well known as “Sagar Group” and has become one of the prominent players in this sector. Sagar Group is already in metallic Jari business with total experience of over 15 years. The Group also has commendable experience in



Press Release

metallic yarn business, owing to successfully set up of 31 Metallic Yarn Manufacturing machines in group concerns.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	29.67	46.49
EBITDA	2.42	7.22
PAT	0.39	1.50
Total Debt	19.33	17.55
Tangible Net worth	7.07	10.14
EBITDA Margin (%)	8.16	15.54
PAT Margin (%)	1.30	3.20
Overall Gearing Ratio (x)	2.74	1.73

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	15.10	IVR BB/ Stable	-	-	-
2.	Cash Credit	Long Term	3.00	IVR BB/ Stable	-	-	-
3.	Bank Guarantee	Short Term	0.67	IVR A4	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Smriti Jetly
 Tel: (011) 24611910
 Email: sjetly@infomerics.com

About Infomerics:



Press Release

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	-	-	-	15.10	IVR BB/ Stable
Long Term Bank Facility- Cash Credit	-	-	-	3.00	IVR BB/ Stable
Short Term Bank Facility- Bank Guarantee	-	-	-	0.67	IVR A4