**RATING RATIONALE**

**6 August 2020**

# GIMATEX INDUSTRIES PRIVATE LIMITED

**Brickwork Ratings reaffirms BWR A- with a revision in outlook from Positive to Stable for the long-term bank limits of ₹ 419.35 Crs. and BWR A2+ for the short-term bank limits of ₹ 102.00 Crs. of Gimatex Industries Private Limited.**

**Particulars:**

| Facility*** | Amount (₹ Cr) | | Tenure | Rating** | |
|---|---|---|---|---|---|
| | Previous | Present | | Previous (April, 2019)* | Present |
| Fund based (Includes Proposed Limits) | 373.63 | 419.35 | Long Term | BWR A-/Positive [Reaffirmed with revision in outlook] | BWR A-/Stable [Reaffirmed with revision in outlook] |
| Non Fund based (Includes Proposed Limits) | 87.00 | 102.00 | Short Term | BWR A2+ [Reaffirmed] | BWR A2+ [Reaffirmed] |
| Total | 460.63 | 521.35 | INR Five Hundred and Twenty One crores and Thirty Five Lakhs Only | | |

*Rating was moved to Not Reviewed Category in April 2020.
**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*** Details of bank facilities are provided in Annexure-I.

**Rating: Ratings reaffirmed with revision in outlook**

## RATING ACTION / OUTLOOK

The reaffirmation of the rating continues to take comfort from the extensive experience of the promoters and management of Gimatex Industries Private Limited (“GIPL” or “the Company”) in the textile industry. The rating also factors in the integrated nature of operations and favourable location of the manufacturing unit, which is in proximity to cotton growing areas. The rating continues to derive comfort from the moderate financial risk profile and adequate liquidity position.

The rating is constrained on account of decline in revenue and margins during FY20 (provisional) due to the COVID-19 impact and susceptibility of the profitability margins to volatility in cotton, yarn prices and forex rates. The rating is also constrained by the Company’s presence in a highly fragmented and competitive textile industry.

**Outlook: Stable**

The outlook has been revised to Stable on the back of the Company's lower-than-expected operating performance and expected deterioration in the credit profile owing to demand disruptions resulting from the outbreak of the COVID-19 pandemic and also expected constraint on the profitability for textile companies.

**KEY RATING DRIVERS**

**Credit Strengths:**

- **Extensive experience of promoters and management in textile industry**

  The Company is promoted by the Mohota family, originally hailing from Rajasthan, and is a part of Gimatex Group, a diversified business conglomerate with a presence in textile manufacturing and trading since the last five decades. Apart from textiles, the group also has a presence in the refractory manufacturing and financial services industry. The Company also benefits from a qualified and experienced management, which has helped the Company get repeat orders from its customers.

- **Integrated nature of operations, along with location advantage**

  GIPL benefits from the integrated nature of operations with a presence across the ginning and pressing, spinning, weaving and processing of fabric, resulting in operational efficiencies and reducing dependence on one segment. The Company has also set-up a cottonseed processing plant for producing refined cottonseed oil and de-oiled cake (DOC). The Company also benefits from its long standing relations with its diversified customer profile. The manufacturing facility is located near the cotton growing areas of Vidarbha, Maharashtra. Hence, the Company benefits from low transportation costs and easy access to quality cotton because of its proximity to raw material sources.

- **Moderate financial risk profile**

  The Company benefits from a moderate financial risk profile, reflected by a tangible net worth of Rs. 294.45 crores and debt to equity ratio at 1.63 times as on 31st March 2020 (provisional). The interest coverage ratio stood at 2.04 times and debt coverage ratio at 1.36 times for FY20 (provisional). The Company also receives capital incentives from the state and central governments in the range of Rs. 5.00 ~ Rs. 6.00 crores every year, which supports its liquidity profile.

**Credit Risks:**

- **Weaker-than-expected performance**

The Company reported decline in revenue in FY 2020 (provisional) due to a slowdown in demand and drop in cotton yarn and fabric realisations. The operating margin also deteriorated to 9.16% during FY20 (provisional), against 10.05% in FY19 due to a drop in cotton yarn and fabric realisation, against the fixed cost of cotton already stocked. Furthermore, the Company's performance is expected to remain under pressure during FY21 on account of demand disruptions caused by the outbreak of the COVID-19 pandemic, along with cotton yarn price corrections.

- **Working-capital-intensive operations and susceptibility of profitability to volatility in cotton, yarn prices and forex rates**
  The main raw material for the Company is cotton, and the procurement season for the same is during November to April every year, leading to high inventory holding. Hence, it is required to maintain an inventory of four to six months, leading to high working capital requirements. The cotton crop, being an agri-commodity, is dependent on weather conditions and is susceptible to plant pests and diseases, leading to volatility in cotton prices. Consequently, the fortunes of the Company are susceptible to price variations in both raw cotton and processed yarn. Furthermore, the Company exports to countries including those in East Europe, Bangladesh and South Korea; hence, margins are exposed to volatility in forex rates. However the risk is mitigated to a large extent by way of a natural hedge because the Company also imports raw materials and the utilisation of packing credit in foreign currency to meet export orders.

- **Presence in highly fragmented and competitive industry**
  The textile industry is highly fragmented and competitive, with a presence of a large number of organised and unorganised players, thereby limiting the Company's bargaining power against its customers.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, Brickwork Ratings (BWR) has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has principally relied on the standalone audited financials up to FY19 and provisional financials for FY20, publicly available information and clarification/information provided by the company.

## RATING SENSITIVITIES

**Positive:**

- An improvement in the operating income and profitability, resulting in an improvement in the debt coverage indicators
- A significant reduction in the Company's external debt.

**Negative:**

- Significant decline in operating income and profitability, leading to a deterioration in the debt coverage indicators and liquidity profile of the Company

- A majorly debt-funded capacity expansion plan, resulting in a highly leveraged capital structure

**LIQUIDITY POSITION: ADEQUATE**

GIPL has reported net cash accruals of Rs. 50.49 crores for FY20 (provisional), against an annual debt repayment obligation of Rs. 28.30 crores during the same year. The current ratio stood at 1.48 times as on 31st March 2020 (provisional). Furthermore, the average working capital utilisation is comfortable at around 75.36 percent for the period from March 2019 to March 2020. The Company has received an additional limit of Rs. 12.00 crores under the COVID-19 scheme for a period of 2 years. The ongoing capital expenditure of the Company has been postponed due to the impact of the pandemic on the textile industry.

**COMPANY PROFILE**

GIPL was initially incorporated in 1994 as Vibha Synthetics Limited promoted by the Mohota family originally hailing from Rajasthan. The Mohota family is engaged in business for the last six generations and has several decades of experience in the textile industry. However, after the realignment of the family ownership structure in 2005, the Wani unit (belonging to Rai Saheb Rekhchand Mohota Spinning and Weaving Mills Limited) was merged into sister concern Vibha Synthetics Limited (VSL), and the new entity was renamed Gimatex Industries Private Limited. The Company's day-to-day operations are managed by Mr. Prashant Kumar Mohota, who has around 15 years of experience in the textile industry. He is supported by his brothers Mr. Vineetkumar Mohota and Mr. Anuragkumar Mohota.

GIPL is a composite textile unit with a presence in different verticals of the textile industry, including ginning and pressing, spinning, weaving and processing of fabrics. The Company is also engaged in producing cottonseed refined oil and de-oiled cake.

The Company has five manufacturing units, of which four are in Hinganghat, Yerala, Wani and Bela near Nagpur, respectively, while the fifth unit (processing unit) is in Dhokla, Ahmedabad. The installed capacity for ginning and pressing stood at 1,26,000 bales per annum, yarn spinning - 26000 metric tonnes per annum, grey fabric - 375 lakh meters per annum, processing of fabric - 300 lakh meters per annum, cotton seed refined oil - 10,800 metric tonnes per annum and DOC - 19,200 metric tonnes per annum. The major raw material for GIPL is cotton, which is mainly procured from farmers in Maharashtra and Telangana. GIPL also procures polyester and viscose fiber from local sources for producing blended yarn. The Company mainly caters to customers in Maharashtra, Gujarat and Karnataka, which constitutes around 60% of its total sales, along with other states in the country. The Company is also engaged in the export of traded yarn, manufactured yarn and fabric to countries including those in Eastern Europe, Bangladesh and South Korea, which constitutes around 20% of the total sales.

**KEY FINANCIAL INDICATORS (in ₹ Cr)**

| Key Parameters | Units | FY2018 | FY2019 |
|---|---|---|---|
| **Result Type** | | **Audited** | **Audited** |
| Operating Revenue | Rs. Crs | 921.70 | 1124.77 |
| EBITDA | Rs. Crs | 115.27 | 113.00 |
| PAT | Rs. Crs | 13.61 | 19.28 |
| Tangible Net worth | Rs. Crs | 248.09 | 273.24 |
| Total Debt/Tangible Net worth | Times | 1.92 | 1.72 |
| Current Ratio | Times | 1.27 | 1.38 |

As per FY 2020 provisional financials, GIPL has reported an operating income of Rs. 1012.17 crores. GIPL has reported tangible net worth of Rs. 294.45 crores as against total debt of Rs. 480.76 crores as on 31st March 2020 (provisional).

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED**

The terms of sanction include standard covenants normally stipulated for such facilities.

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :** Not Applicable

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [INCLUDING WITHDRAWAL AND SUSPENDED]**

| Instrument / Facilities | Current Rating | | | Rating History | | |
|---|---|---|---|---|---|---|
| | Tenure (Long Term/ Short Term) | Amount (₹ Cr) | Rating | 24 April 2019 | 06, Mar, 2018 | 29 Nov 2017 |
| Fund Based (Includes Proposed Limits) | Long Term | 419.35 | BWR A-/ Stable (Reaffirmed with revision in outlook) | BWR A-/Positive (Reaffirmed with revision in outlook) | BWR A-/Stable (Reaffirmed) | BWR A-/Stable (Reaffirmed) |
| Non Fund Based (Includes Proposed Limits) | Short Term | 102.00 | BWR A2+ (Reaffirmed) | BWR A2+ (Reaffirmed) | BWR A2+ (Reaffirmed) | BWR A2+ (Reaffirmed) |
| **Total** | | **521.35** | **INR Five Hundred andTwenty One Crores and Thirty Five Lakhs Only** | | | |

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

**Hyperlink/Reference to applicable Criteria**

- General Criteria
- Approach to Financial Ratios
- Rating Criteria for Manufacturing Companies

| Analytical Contacts | Investor and Media Relations |
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**Gimatex Industries Private Limited**
**ANNEXURE I**
**Details of Bank Facilities rated by BWR**

| Sl. No. | Name of the Bank | Type of Facilities | Long Term (₹ Cr) | Short Term (₹ Cr) | Total (₹ Cr) |
|---|---|---|---|---|---|
| 1. | Bank of Baroda | Cash Credit | 61.60 | - | 61.60[^] |
| 2. | | Term Loan | 75.16 | - | 75.16[#] |
| 3. | | Letter of Credit Backed Discounting | - | 52.00 | 52.00 |
| 4. | State Bank of India | Cash Credit / Working Capital Demand Loan | 35.00 | - | 35.00[&] |
| 5. | Bank of India | Cash Credit | 33.40 | - | 33.40[$] |

| | | | | | |
|---|---|---|---|---|---|
| 6. | | Term Loan | 39.22 | - | 39.22 |
| 7. | | Letter of Credit Backed Discounting | - | 7.00 | 7.00 |
| 8. | | Bank Guarantee | - | 2.00 | 2.00 |
| 9. | IDBI Bank | Cash Credit | 20.00 | - | 20.00^^ |
| 10. | | Term Loan | 18.47 | - | 18.47 |
| 11. | | Letter of Credit | - | 8.00 | 8.00** |
| 12. | | Bank Guarantee | - | 8.00 | 8.00 |
| 13. | ICICI Bank | Cash Credit | 15.00 | - | 15.00^^^ |
| 14. | | Letter of Credit | - | 10.00 | 10.00*** |
| 15. | Axis Bank | Cash Credit | 4.00 | - | 4.00@ |
| 16. | | Working Capital Demand Loan | 6.00 | - | 6.00@ |
| 17. | | Proposed Cash Credit | 5.00 | - | 5.00 |
| 18. | | Term Loan | 51.68 | - | 51.68 |
| 19. | | Letter of Credit | - | 10.00 | 10.00* |
| 20. | | Proposed Letter of Credit | - | 5.00 | 5.00 |
| 21. | HDFC Bank | Cash Credit | 5.00 | - | 5.00 |
| 22. | | Proposed Cash Credit | 25.00 | - | 25.00 |
| 23. | | Term Loan | 24.82 | - | 24.82 |
| **TOTAL** | | | | | **521.35** |

^Includes sublimit of Working Capital Demand loan to the tune of Rs. 33.86 crores,
^Interchangeability from cash credit & PC/PCFC/FBP/FBD/FCBP/FCBD to the tune of Rs.

25.00 crores.
#Includes sublimit of Export Packing credit/Packing Credit in Foreign Currency of Rs. 4.00 crores and Post Shipment credit/Post Shipment credit of Rs. 4.00 crores.
*Includes sublimit of Letter of Credit backed Discounting of Rs. 5.00 crores and LER limit of Rs. 8.00 crores, bill purchase /discounting of Rs.5.00 crores.
@Includes one way interchangeability from fund based to Non fund based facility.
@Cash credit includes sublimit of Export Packing credit/Packing Credit in Foreign Currency of Rs. 4.00 crores and Foreign Bill Purchase/Discounted of Rs. 4.00 crores.
& Includes sub limit of Export Packing credit/Packing Credit in Foreign Currency/Export Bill Discounting/Export Bill Negotiation to the tune of Rs. 27.00 crores.
$ Includes sub limit of Working Capital loan to the tune of Rs. 17.04 crores.
^^Includes sub limit of Working Capital Demand loan to the tune of Rs. 10.00 crores and Packing Credit in Foreign Currency/ Post Shipment Credit of Rs. 7.00 crores.
**Includes sub limit of capex letter of credit to the tune of Rs. 7.00 crores.
^^^Includes sub limit of Working Capital Demand Loan, Export Packing credit, Packing Credit in Foreign Currency to the tune of Rs. 15.00 crores.
***Includes sub limit of Performance & Financial Bank Guarantee of Rs. 10.00 crores each.

**Total Rupees Five Hundred and Twenty One Crores and Thirty Five lakhs only.**

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