

Press Release Grospinz Fabz Limited

13 August, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 84.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short long term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 84.00 crore bank facilities of Grospinz Fabz Limited (GFL). The outlook is "**Stable**"

Incorporated in 2006, Grospinz Fabz Limited (GFL) is a Punjab based company engaged in manufacturing of cotton spun yarn at its spinning unit in Jalalabad, Punjab with an installed capacity of 32,000 spindles. In addition, GFL started their 2nd unit in Gujarat in the Sabarkantha district from September'17 with an installed capacity of 15,000 spindles. The company is promoted by the Grover family headed by Mr. Babu Lal Grover along with his two sons Mr. Navneet Grover and Mr. Supneet Grover.

Key Rating Drivers

Strengths

Experienced management and long track record of operation

Incorporated in 2006, GFL has a decade of track record in the textile business. The company is promoted by the Grover family of Punjab consisting of Mr. Babu Lal Grover and his two sons Mr. Supneet Grover and Mr. Navneet Grover who are actively involved in the day to day operations of the business.

Healthy financial risk profile

The financial risk profile of GFL is above average marked by healthy net worth base, high gearing (debt-equity) and comfortable debt protection metrics. The net-worth stands at Rs 42.14 crs as on 31st March'18 (prov) as compare to Rs 37.72 crs in the previous year. The debt to equity ratio of the company stands high at 1.91 times on 31st March,18 (prov) as against 2.18 times in the previous year. The high debt-equity ratio is on account of significant capex of around Rs 47.25 cr incurred during the last 2 years to commence the operation of the 2nd unit in Gujarat. The company's debt levels increased to Rs 79.42 cr in FY 18 (prov) from Rs 46.26 cr in FY 16 due to the capex undertaken to start the new unit in Gujarat. GFL reported a comfortable interest coverage ratio of 2.15 times in as on 31st March'18 (prov) as against 2.49 times in the previous year despite a rise in debt levels. The debt service coverage ratio (DSCR) stood at 1.54 times as on 31st March'18 (prov) as compared to 2.31 times in the previous year. The net cash accrual to total debt (NCA/TD) stands comfortable at 0.10 times on 31st March, 18 (prov).

Established relationship with its customers

GFL had established relationship with its customers. Its customer includes mainly fabric and weaving/ knitting units in Ludhiana, Gurgaon, Kanpur, Ahmedabad, Somana etc. In addition, the firm is also exporting around 40 to 50 per cent to countries namely Portugal, Turkey, Israel, Bangladesh, China, Singapore, Ivory Coast, Egypt, Columbia etc. The company has a long standing relationship with the major customers which vary from 5-9 years.

Significant growth in revenue

The company has registered a significant growth in revenue to Rs 198.04 crs in FY 18 (prov) as compared to Rs 132.60 crs in FY17 thereby registering a y-o-y growth of 49.36 per cent. The significant growth in revenue is on account of the commencement of the 2nd unit from September'17 which contributed to ~ 10 per cent of the total revenue. In addition, the company has been able to increase its sales in the domestic market from its 1st unit in Punjab. Going forward, Acuité believes the topline will increase further with stabilization of operations in their 2nd unit.

Weaknesses

Working Capital Intensive Operations

The operations are working capital intensive in nature marked by gross current asset (GCA) days of 107 days as on 31st March'2018 (prov) as compared to 187 days in the previous year. The improvement in GCA days are on account of improvement in the inventory days of 56 as on 31st March'18 (prov) as against 129 days in the previous year. Further, working capital intensity is reflected from the utilization ~ 91 per cent for the 12 month ended June'18.

Margins susceptible due to volatility in raw material prices

Operating margin of cotton yarn manufacturers is susceptible to changes in cotton prices. GFL operating margins have varied from 6.54 per cent to 8.64 per cent in the last 3 years.

Outlook: Stable

Acuité believes the outlook of GFL rated facilities will remain stable over the medium term backed by its long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while improving its working capital cycle. The outlook may be revised to 'Negative' in case of the company fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates

Analytical Approach: Acuité has taken a standalone view of the business and financial risk profile and GFL.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	198.04	132.60	141.92
EBITDA	Rs. Cr.	14.46	11.45	9.28
PAT	Rs. Cr.	2.45	1.87	1.38
EBITDA Margin	(%)	7.30	8.64	6.54
PAT Margin	(%)	1.24	1.41	0.97
ROCE	(%)	8.78	8.23	7.78
Total Debt/Tangible Net Worth	Times	1.91	2.18	1.66
PBDIT/Interest	Times	2.15	2.49	2.63
Total Debt/PBDIT	Times	5.36	6.00	4.64
Gross Current Assets (Days)	Days	107	187	130

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

NA

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	37.39	ACUITE BBB-/Stable (Assigned)
Cash Credit #	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-/Stable (Assigned)
Foreign Bill Discounting @	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)
Proposed Long term facilities	Not Applicable	Not Applicable	Not Applicable	0.81	ACUITE BBB-/Stable (Assigned)

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A3 (Assigned)
----------------	----------------	----------------	----------------	------	----------------------

Includes sub limit of Rs 32 crs of EPC/PCFC/FBD and Rs 8 of domestic book debt within CC limit of Rs 35 crs.

@ Includes sub limit of Rs 10 crs of EBR within FBP limit of Rs 10 crs.

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in</p> <p>Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@acuiteratings.in</p>	<p>Varsha Bist Sr. Executive Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.