Press Release

Grospinz Fabz Limited

December 20, 2019

Rating Reaffirmed & Assigned

Total Bank Facilities Rated*	Rs. 116.00 Cr. (Enhanced from Rs. 84.00 crores)
Long Term Rating	ACUITE BB+/Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' **(read as ACUITE triple B minus)** and short-term rating of '**ACUITE A4+**' **(read as ACUITE A three plus)** on the Rs. 84.00 crore bank facilities of Grospinz Fabz Limited (GFL). The outlook is **'Stable'**.

Acuité has assigned long-term rating of '**ACUITE BB+**' **(read as ACUITE triple B minus)** and short-term rating of '**ACUITE A4+**' **(read as ACUITE A three plus)** on the Rs. 32.00 crore bank facilities of Grospinz Fabz Limited (GFL). The outlook is **'Stable'**.

Punjab-based GFL was incorporated in 2006 by Mr. Babu Lal Grover, Mr. Supneet Grover and Mr. Navneet Grover. GFL is engaged in the manufacturing of cotton spun yarn at its spinning unit in Jalalabad and recently the company has established a new manufacturing facility in Gujrat which has increased the installed capacity of the company from 32500 spindles to 54400 spindles per year. Further the company has around 450 employees.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of GFL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**
  Incorporated in 2006, Grospinz Fabz Limited has long track record of operations of more than a decade in the business of cotton yarn spinning. The company also benefits from the extensive experience of its promoters i.e. Grover family. Currently, the company is being promoted by Mr. Babu Lal Grover and his sons Mr. Supneet Grover and Mr. Navneet Grover all of them having more than a decade of experience in the cotton ginning and spinning industry. Going forward, Acuité expects the company will sustain its existing business profile on the back of established track record of operations and experienced management.

  Acuité believes that the company will continue to benefit from its established presence in the aforementioned industry and the promoter's demonstrated ability to scale up the operations across various cycles.

- **Moderate financial risk profile**
  The company has moderate financial risk profile marked by moderate net worth, moderate gearing and debt protection metrics. The tangible net worth stood at Rs 54.80 crore as on 31st March, 2019 as against Rs 47.78 crore as on 31st March, 2018. The gearing stood moderate at 1.17 times as on 31st March, 2019 as against 1.46 times as on 31st March, 2018. The Total Outside Liabilities/ Tangible net worth (TOL/TNW) stood at 1.34 times as on 31st March, 2019 as against 1.67 times as on 31st March, 2018. Total debt of Rs 64.25 crore as on 31st March, 2019 includes long term debt of Rs 31.77 crore and short term debt of Rs 32.48 crore. Interest Coverage Ratio (ICR) stood at 1.20 times for FY 19 as against 1.30 times in the previous year. Debt Service Coverage Ratio (DSCR) stood at 2.24 times for FY 19 as against 1.65 times in FY 18. Net

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Cash Accruals/ Total Debt (NCA/TD) stood low at 0.13 times in FY 19 as compared to 0.12 times in FY 18. The financial risk profile of the company is expected to remain moderate over the medium term in the absence of any major debt funded capex plans.

- **Improvement in working capital operations**
GFL's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 77 days for FY2019 as against 105 days in the previous year. The company maintains inventory levels of around 52 days. The debtor's collection period stood at 20 days as against 35 days in the previous year. Further, the creditor days stood at 7 days in FY2019. However, the reliance on working capital limits has increased, leading to higher utilization of its bank lines at an average of 90 per cent over the last six months through Nov 2019.

Weaknesses

- **Susceptibility of profitability due to fluctuations in raw material prices**
The company is exposed to risks emanating from adverse movements in cotton prices in the domestic and international markets as reflected by the decline in the operating profit margin of 5.71 percent in FY2019 compared to 8.19 percent in FY2018. Acuité believes that the company's ability to pass on increase in cotton prices to the end customers shall be critical towards maintaining its credit risk profile. Adverse movements in prices on account of global demand - supply mismatches may result in downward pressure on the company's profitability margins over the near to medium term.

- **Highly competitive and fragmented industry**
The company operates in a highly competitive textile industry with several organized and unorganized players which limit the bargaining power of GFL.

Rating Sensitivity Factor
- Growth in revenue, while improvement in the profitability margins
- Expected growth in business
- Elongation of working capital operations leading deterioration in financial risk profile and liquidity

Material Covenants
None

Liquidity Position
GFL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of around Rs.8.46 crore in FY2019, while it's maturing debt obligations were Rs.6.40 crore over the same period. The company's working capital operations are efficient in nature marked by high gross current asset (GCA) days of 77 in FY 2019. However the cash credit limit of the company remains utilized at 90 percent during the last 6 months period ended Nov 2019. The group maintains unencumbered cash and bank balances of Rs.1.36 crore as on March 31, 2019. The current ratio of the company stood at 1.20 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of steady scale of operations and healthy net cash accruals.

Outlook: Stable
Acuité believes that the GFL will maintain a 'Stable' outlook on account of extensive experience of promoter group. The outlook may be revised to 'Positive' in case of significant increase in the scale of operations while maintaining adequate asset quality and profitability metrics. The outlook may be revised to 'Negative' in case of pressure on capitalization or deterioration in profitability and asset quality metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	262.71	183.02
PAT	Rs. Cr.	3.78	3.40
PAT Margin	(%)	1.44	1.86
Total Debt/Tangible Net Worth	Times	1.17	1.46
PBDIT/Interest	Times	2.24	2.20

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
• Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
• Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-4.htm
• Entities In Trading Sector - https://www.acuite.in/view-rating-criteria-6.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Oct-2019	Term Loan	Long Term	37.39	ACUITE BB+ (Revised from ACUITE BBB-) Issuer not cooperating*
	Cash Credit #	Short Term	35.00	ACUITE BB+ (Revised from ACUITE BBB-) Issuer not cooperating*
	Foreign Bill Discounting @	Long Term	10.00	ACUITE A4+ (Revised from ACUITE A3) Issuer not cooperating*
	Proposed Long term facilities	Long Term	0.81	ACUITE BB+ (Revised from ACUITE BBB-) Issuer not cooperating*
	Bank Guarantee	Short Term	0.80	ACUITE A4+ (Revised from ACUITE A3) Issuer not cooperating*
13-May-2018	Term Loan	Long Term	37.39	ACUITE BBB-/Stable (Assigned)
	Cash Credit #	Short Term	35.00	ACUITE BBB-/Stable (Assigned)
	Foreign Bill Discounting @	Long Term	10.00	ACUITE A3 (Assigned)
	Proposed Long term facilities	Long Term	0.81	ACUITE BBB-/Stable (Assigned)

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	Bank Guarantee	Short Term	0.80	ACUITE A3 (Assigned)

*The issuer did not co-operate; based on best available information
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.

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan 1	Not Applicable	Not Applicable	Not Applicable	31.40 (Revised from Rs. 37.39 cr.)	ACUITE BB+/Stable (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	45.00 (Revised from Rs. 35.00 cr.)	ACUITE BB+/Stable (Reaffirmed)
Term loan 2	Not Applicable	Not Applicable	Not Applicable	19.30	ACUITE BB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4+ (Reaffirmed)
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	18.00 (Revised from Rs. 10.00 cr.)	ACUITE A4+ (Reaffirmed)
Proposed bank facilities	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE BB+/Stable (Reaffirmed)

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About Acuité Ratings & Research:
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